

# Chapter 12

## Company File Setup and Maintenance

### Objectives

After completing this chapter, you should be able to:

- Perform a complete company file setup using the 12-Step process (page 365)
- Choose a start date (page 365)
- Use the *EasyStep Interview* to set up your company file (page 366)
- Set up accounts in the *Chart of Accounts* List (page 377)
- Gather your information for setting up opening balances (page 388)
- Enter opening balances (page 391)
- Enter year-to-date income and expenses (page 398)
- Adjust the opening balance for Sales Tax Payable (page 399)
- Adjust inventory for physical quantities on hand (page 401)
- Verify your opening balances (page 402)
- Close opening balance equity into retained earnings (page 403)
- Back up the file and set the closing date (page 405)
- Set up Users and Passwords (page 405)

In this chapter, you will learn how to create a new QuickBooks data file, set up the Chart of Accounts, and enter opening balances. You will also learn how to set up user access rights and passwords for each person who will use QuickBooks.

### Complete Company File Setup: A 12-Step Process

In this section, you will learn about the 12-Step setup process for completing your QuickBooks file setup.

### Choosing a Start Date – Step 1

Before you create your company file, choose a start date for your company file. Your start date is the day before you start using QuickBooks to track your daily transactions. You will need complete information for your opening balances as of this start date.

## The 12-Step Setup Checklist

1. Choose a QuickBooks **start date**. See page 365.
2. Create a new QuickBooks **company file**. See page 366.
3. Edit your **Chart of Accounts** and set up other company Lists. See page 377.
4. Enter opening balances for **Balance Sheet** accounts (except Accounts Receivable, Accounts Payable, Inventory, Sales Tax Payable, and Retained Earnings). See page 388.
5. Enter outstanding transactions including **Checks**, **Deposits**, open **Invoices**, and unpaid **Bills** as of the start date. See page 395.
6. If you are setting up in mid-year, enter your **year-to-date income** and **expenses**. See page 398.
7. Adjust **Sales Tax Payable**. See page 399.
8. Adjust **Inventory** to match your physical counts, and set up **Fixed Assets**. See page 401.
9. Set up **Payroll Lists** and **year-to-date (YTD) payroll** information. See page 402.
10. Verify that your **Trial Balance** report matches your accountant's trial balance on your **start date**. See page 402.
11. Close the **Opening Bal Equity** account into Retained Earnings. See page 403.
12. Set the **Closing Date** and the **Closing Date Password** to lock the file as of your start date, set up **Users and Passwords**, and backup your company file. See page 405.

Table 12-1 The 12-Step Setup Checklist

Assuming you file taxes on a calendar-year basis, the best start date for most companies is December 31. If you file taxes on a fiscal year, choose the last day of your fiscal year as your start date.

Do not use January 1 (or the first day of your fiscal year) for your start date, because doing so would cause the opening balances to affect your first year's *Profit & Loss Report*. This could affect your taxes and distort the picture of the company's financial history.

Keep in mind that you will need to enter all of the transactions (checks, invoices, deposits, etc.) between your start date and the day you perform the QuickBooks setup. Because of this, your start date has a big impact on how much work you will do during setup. If you do not want to go back to the end of last year, choose a more recent date, such as the end of last quarter or the end of last month.

### Note:

In order for your records to be complete and accurate, you should enter every transaction (check, invoice, deposits etc.) that your company performed between the start date and the day you perform the QuickBooks setup. For example, if you are setting up the file on January 5 with a start date of December 31, you will need to enter all transactions that the company performed on January 1 through January 5 for your records to be complete and accurate.

If you are starting a new business, your start date is the day you formed the company.

## Creating the File – Step 2

There are two ways to create a file, through the *Express Start* and the *Advanced Setup*. In the following section, we will show you how to create a file using both methods. *Express Setup* creates a file with minimal entries and a default set of *Preferences*. Only users who are familiar

with QuickBooks *Preferences* and the impact of creating a QuickBooks file without a start date should use *Express Start*. *Advanced Setup* allows you to set up a number of *Preferences*, as well as set the start date for a company.

## Express Start

When you first create a new file, you are given the option of choosing *Express Start* or *Advanced Setup*, as well as several other options such as converting a file from another format, for example Quicken or Peachtree (see Figure 12-1).

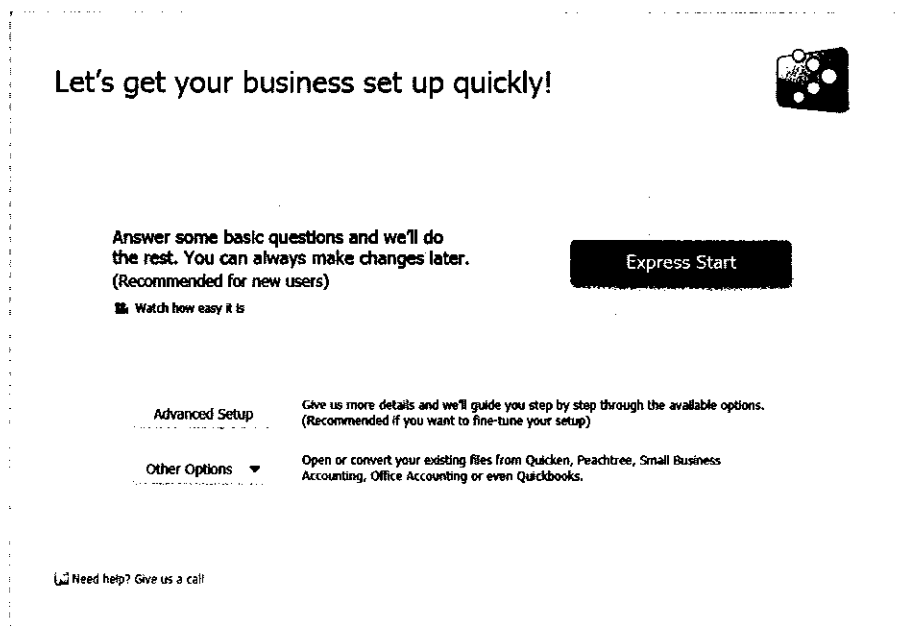


Figure 12-1 New File window

If you choose *Express Start*, you only need to enter your Company and Contact information before creating a file. Once the file is created you can enter *Customers*, *Vendors*, *Employees*, *Items*, and *Bank Accounts*, then start using the file. QuickBooks chooses default *Accounts* and *Preferences* for you based on the *Industry* you select (see Figure 12-2).

Tell us about your business

Enter the essentials so we can create a company file that's just right for your business.

**1 Tell us**

\* **Company Name** Academy Photography  
We'll use this on your invoices and reports, and to name your company file.

\* **Industry** Art, Writing, or Photography  
We'll use this to create accounts common for your industry. Help me choose

\* **Company Type** S Corporation  
We'll use this to select the right tax settings for your business. Help me choose

**Tax ID #** 11-3456789  
We'll use this on your tax forms.

\* Required

Need help? Give us a call

Back Continue

Figure 12-2 Express Start Tell us about your business screen

## Advanced Setup

The *Advanced Setup*, also called the *EasyStep Interview*, allows you to enter your Company and Contact information as in the Express Start, however, it also ask you to customize some of the most common preferences and set a start date.

### COMPUTER PRACTICE

- Step 1. Select the **File** menu and then select **New Company**.
- Step 2. A new file window appears. Click **Advanced Setup** to launch the *EasyStep Interview* (see Figure 12-1).
- Step 3. The *EasyStep Interview* window appears. Enter the information in the Company information screen as shown in Figure 12-3. Click **Next** when done.

**EasyStep Interview**

EasyStep Interview

Interview Progress

**Enter your company information** [Get answers](#)

QuickBooks uses this information on your tax forms and forms you use to communicate with your customers and vendors.

Company name: Academy Photography

Legal name: Academy Photography, Inc.  
The name you use on your tax and legal forms. Unless you use a DBA name, this will probably be the same as the company name. [Explain](#)

Tax ID: 11-3456789  
Your Federal Employer Identification Number (EIN) or Social Security Number. Used only on tax forms.

Street address: 123 Main St.

City: Pleasanton State: CA Zip: 94566

Country: U.S.

Phone: 925-555-1111 Fax: 925-555-1112  
Use the format you would like displayed on your forms. e.g. (555) 555-1212

E-mail address: info@academyphoto.info

Web site: www.academyphoto.info

[What if I have more than one business?](#)

[Need help setting up?](#) [Find A Local QuickBooks Expert](#) (fees may apply)

[Leave...](#) [< Back](#) [Next >](#)

Figure 12-3 Company Information in EasyStep Interview

#### Note:

As you answer questions in the *EasyStep Interview*, QuickBooks creates your file, *Lists*, and *Preferences*. To proceed to the next step in the process click **Next**. To go back to a previous window in the interview, click **Back**. To exit the Interview and retain all changes, click **Leave....**

To make changes to the company information after you have completed the *EasyStep Interview*, select **Company Info** from the *Company* menu.

- Step 4. Select **Art, Writing, or Photography** from the list of industry types. QuickBooks uses the industry information to suggest the appropriate income and expense accounts later in the *EasyStep Interview*. Press **Next** when finished.

**EasyStep Interview**

**Select your industry** [Get answers](#)

Tell us your industry and we'll customize QuickBooks to work best for you.

You will be able to review our recommendations and change them in this interview. And, you can always change each of these settings later. [Explain](#)

*note:* Don't see your industry? Choose an industry that is similar to yours. [Examples](#)

Select an industry from the list

Industry

- Accounting or Bookkeeping
- Advertising or Public Relations
- Agriculture, Ranching, or Farming
- Automotive Sales or Repair
- Church or Religious Organization
- Construction General Contractor
- Construction Trades (Plumber, Electrician, HVAC, etc.)
- Design, Architecture, or Engineering
- Financial Services other than Accounting or Bookkeeping
- Hair Salon, Beauty Salon, or Barber Shop
- Information Technology (Computers, Software)
- Insurance Agency or Broker
- Lawn Care or Landscaping
- Legal Services

How does QuickBooks use my industry selection?

[Leave...](#) [< Back](#) [Next >](#)

Figure 12-4 Select your industry in EasyStep Interview

**Tip:**

**QuickBooks ProAdvisors** are bookkeepers, accountants, software consultants, and CPAs who offer QuickBooks-related consulting services. In addition, **QuickBooks Certified ProAdvisors** are those **ProAdvisors** who have completed a comprehensive training and testing program. For more information on QuickBooks **ProAdvisors** and **Certified ProAdvisors**, refer to QuickBooks in-product Help.

Step 5. The *How is your company organized?* window appears. Select the **S Corporation** radio button and press **Next**.

**EasyStep Interview**

**How is your company organized?** [Get answers](#)

Your selection will help QuickBooks create the correct accounts for your business entity and assign tax form lines to those accounts.

- ☐ **Sole Proprietorship**  
An unincorporated business with one owner **(FORM 1040)**
- ☐ **Partnership or LLP**  
An unincorporated business owned by two or more partners **(FORM 1065)**
- ☐ **LLC**  
A formal business entity that provides limited liability to its owners  
Single-member LLC (Form 1040)
- ☐ **Corporation (also known as Regular or C Corporation)**  
A formal business entity with one or more shareholders. **(FORM 1120)**
- ☒ **S Corporation**  
A corporation that has elected to pass tax liability to its shareholder(s) **(FORM 1120-S)**
- ☐ **Non-Profit**  
A not-for-profit organization exempt from paying taxes **(FORM 990)**
- ☐ **Other/None**

Which business entity should I choose?

[Leave...](#) [< Back](#) [Next >](#)

Figure 12-5 How your company is organized window in the EasyStep Interview

- Step 6. The next window prompts the user to select the first month of the company's fiscal year. This should be the first month of the company's tax year. Leave **January** selected and press the **Next** button.

This field indicates the beginning of the year for year-to-date reports, such as the *Profit & Loss* report.

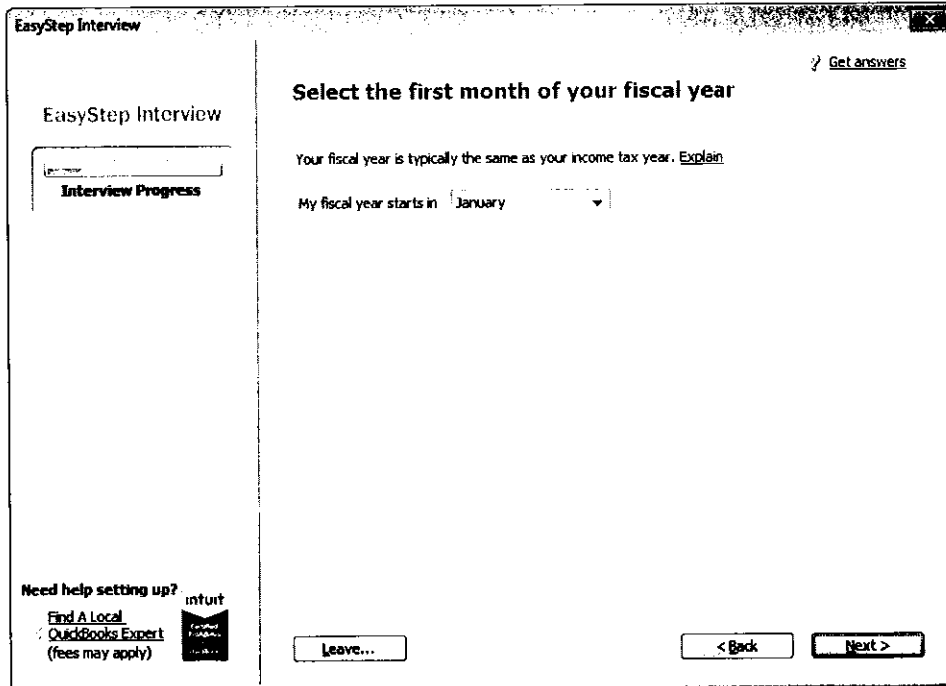


Figure 12-6 Select the first month of your fiscal year window in the EasyStep Interview

**Note for new businesses:**

The first month of your fiscal or income tax year is **NOT** necessarily the month you started your business. The first month in your fiscal year specifies the default date range for accounting reports such as the Profit & Loss and Balance Sheet. The first month in your tax year specifies the default date range for **Income Tax Summary and Detail** reports.

- Step 7. The Administrator password setup screen will appear (see Figure 12-7). Although it's optional, creating an Administrator password is highly recommended. The Administrator is the only person who has access to all functions within a data file. Establishing an Administrator password restricts other users so that they cannot execute tasks that are normally reserved for the Administrator.

However, since you are just creating a sample data file for this lesson, do not create an Administrator password this time. Click **Next** to move to the next step.

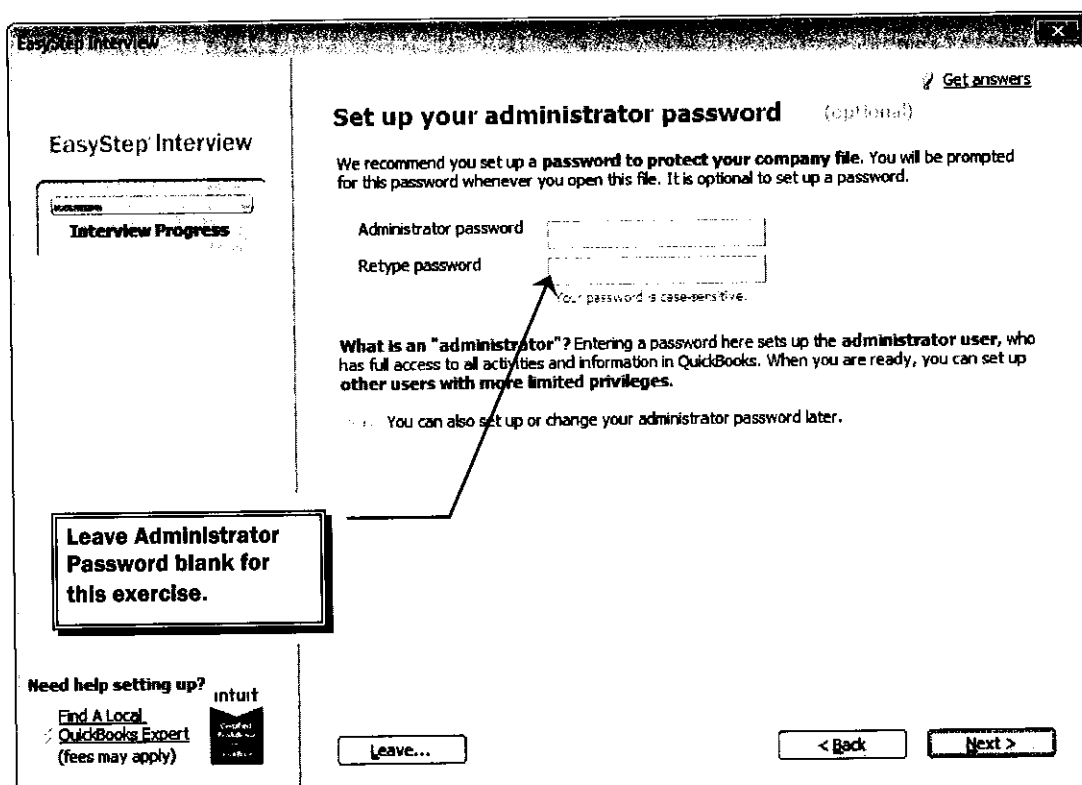


Figure 12-7 The Administrator Password Screen in the EasyStep Interview

**Tip:**

If you need help during the interview, click the **Get answers** link at the top of the interview window.

- Step 8. The next window in the *EasyStep Interview* window contains a message about creating your company file (see Figure 12-8). Click **Next** to create the file.

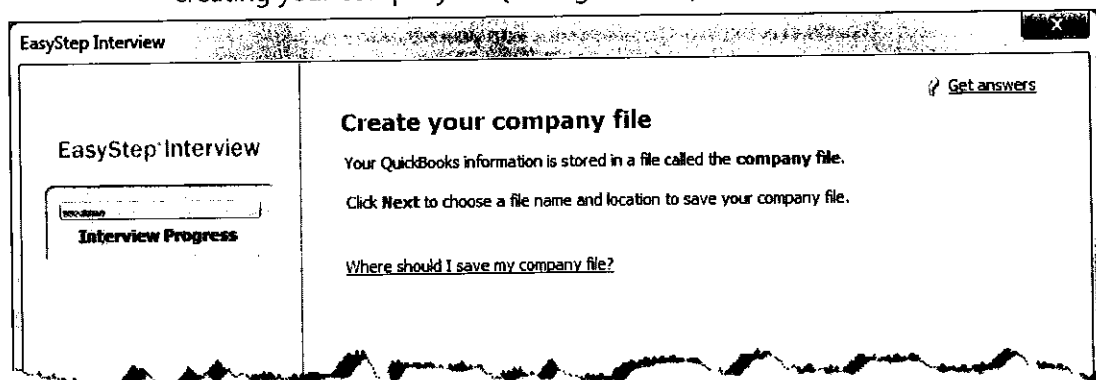


Figure 12-8 Create your company file screen

- Step 9. The *Filename for New Company* window (see Figure 12-9) is where you specify the filename and location for your company file. QuickBooks enters your company name and adds .QBW to the end of your filename.

In the *Save in* field, select your student data folder. Use the default file name, *Academy Photography.QBW*.

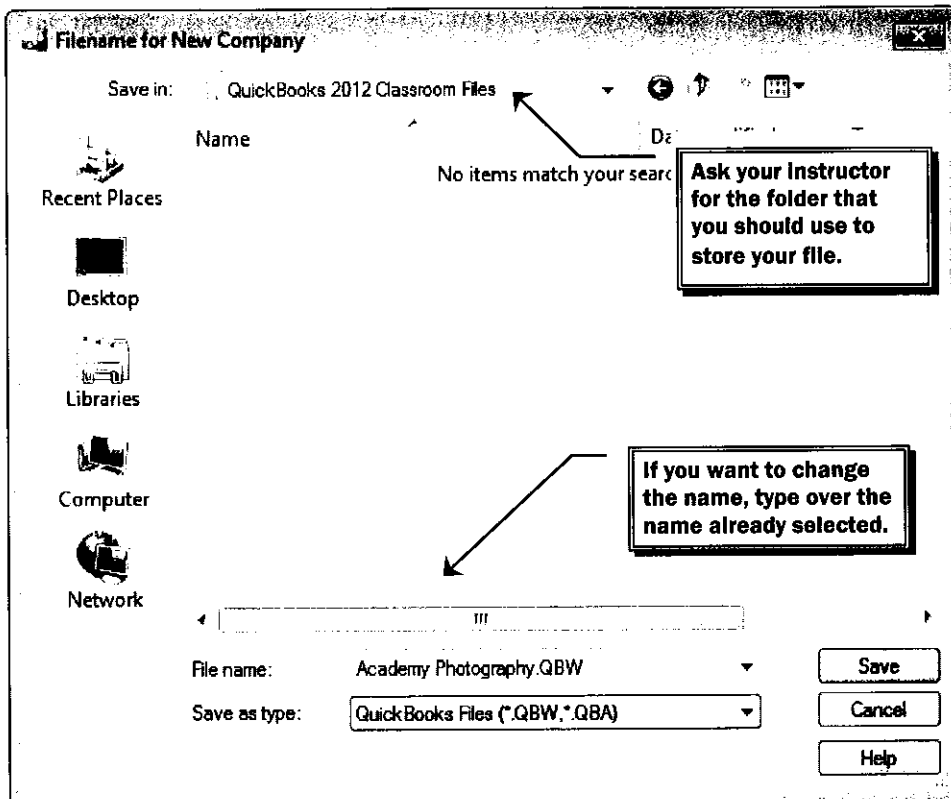


Figure 12-9 Filename for New Company window

Step 10. Click **Save** to create your company file.

Step 11. QuickBooks displays the *Customizing QuickBooks for your business* step. Click **Next** to begin the customizing process.

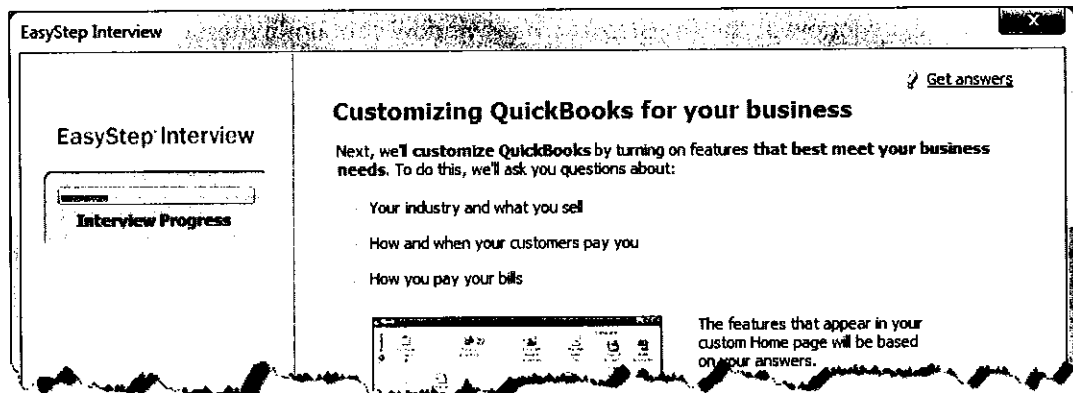


Figure 12-10 Customizing QuickBooks for your business screen

Step 12. The next several screens of the *EasyStep Interview* will guide you through customizing your company file. Use the data in Table 12-2 to answer initial questions about your business.

EasyStep Interview Data	
Question From EasyStep Interview	Response
What do you sell?	Both services and products

Table 12-2 Your Company's industry type



Step 13. The next set of questions relate to how QuickBooks sets up *Preferences* in your company file. Use Table 12-3 to complete these questions.

<b>Company Preferences</b>	
Do you charge sales tax?	Yes
Do you want to create estimates in QuickBooks?	Yes
Do you want to track sales orders before you invoice your customers?	Yes (Note: This option is not available in QuickBooks Pro.)
Do you want to use billing statements in QuickBooks?	Yes
Do you want to use progress invoicing?	Yes
Do you want to keep track of bills you owe?	Yes
Do you want to track inventory in QuickBooks?	Yes
Do you want to track time in QuickBooks?	Yes
Do you have employees?	Yes (check the boxes for both W-2 employees and 1099 contractors)

Table 12-3 Data for the Preferences

Step 14. In the next section of the interview, QuickBooks creates your Chart of Accounts. Click **Next** on the *Using accounts in QuickBooks* screen (see Figure 12-11).

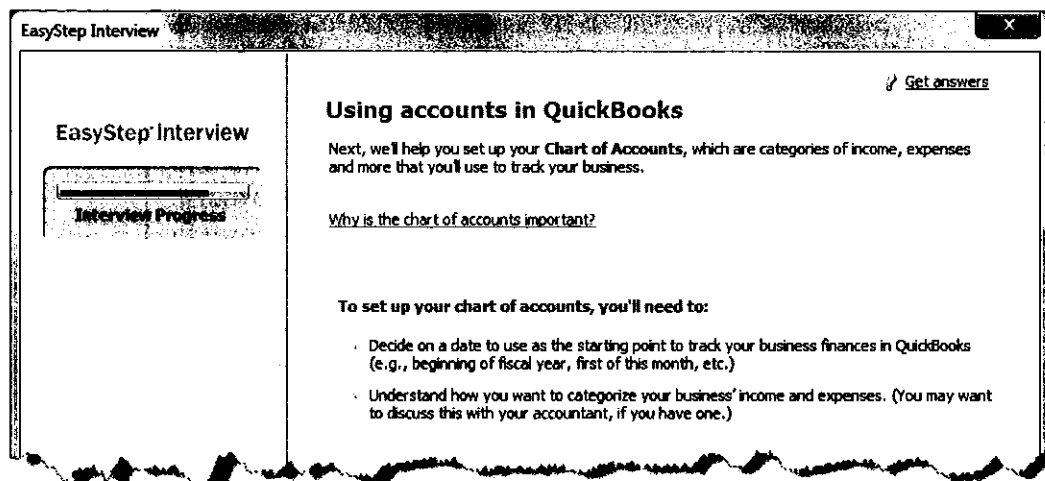


Figure 12-11 Using accounts in QuickBooks section

Step 15. In the *Select a date to start tracking your finances* screen, select **Use today's date or the first day of the quarter or month**. Then enter **12/31/14** in the date field. Click **Next**.

If you are setting up your file to begin at the start of the fiscal year, it is best to choose the last day of the previous fiscal year as the start date. (see *Choosing a Start Date – Step 1* on page 365).

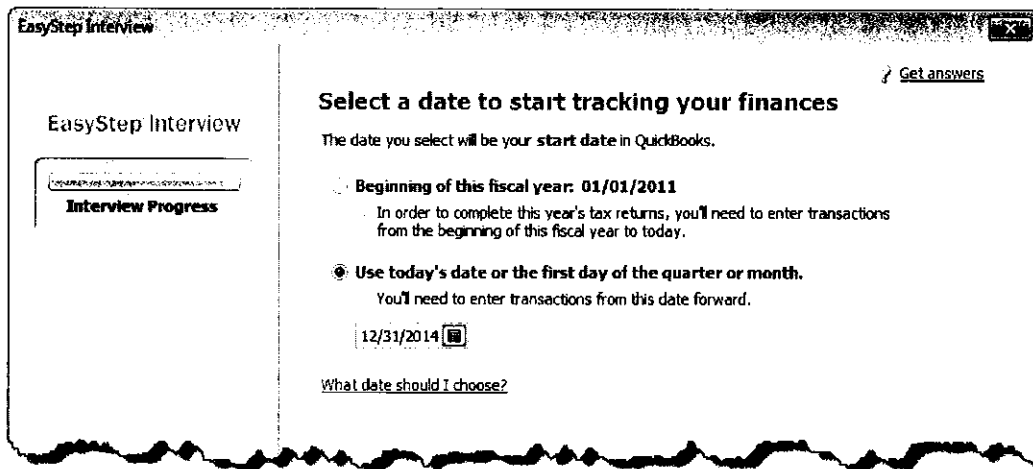


Figure 12-12 Select a date to start tracking your finances window in EasyStep Interview

Step 16. The following screen contains a list of suggested income and expense accounts based on the industry selected earlier in the *EasyStep Interview*. These accounts can be edited after completing the *EasyStep Interview*.

Leave the default accounts checked and click **Next**.

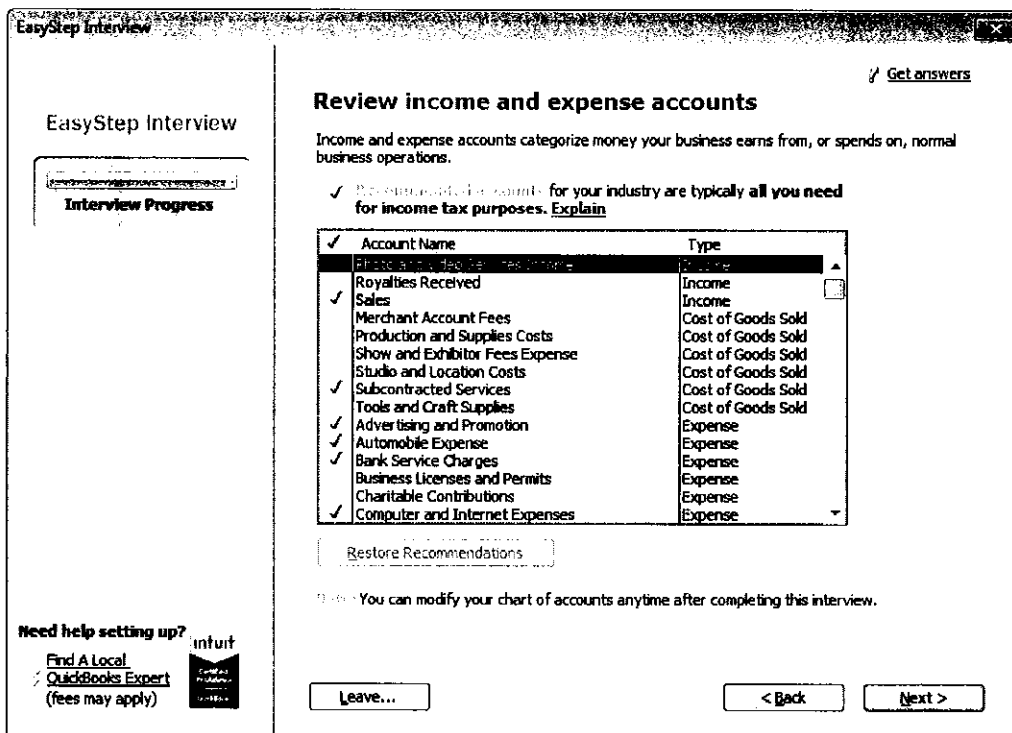


Figure 12-13 Review income and expense accounts window in the EasyStep Interview

Step 17. Click **Go to Setup** to complete the interview.

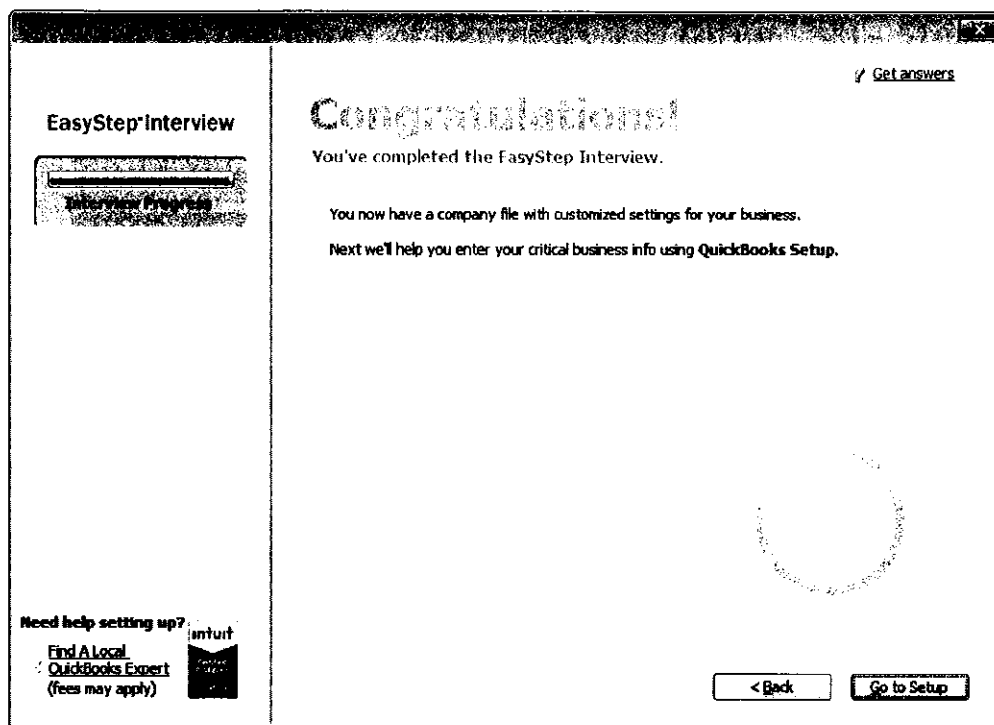


Figure 12-14 Final screen in EasyStep interview

- Step 18. The *QuickBooks Setup* window is displayed. The *QuickBooks Setup* window offers a quick way to enter *Customers*, *Vendors*, *Employees*, *Items*, and *Bank Accounts*.

In the remainder of this exercise, you will create a bank account using the *QuickBooks Setup*. Click the **Add** button in the *Add your bank accounts* section in the lower part of the window.

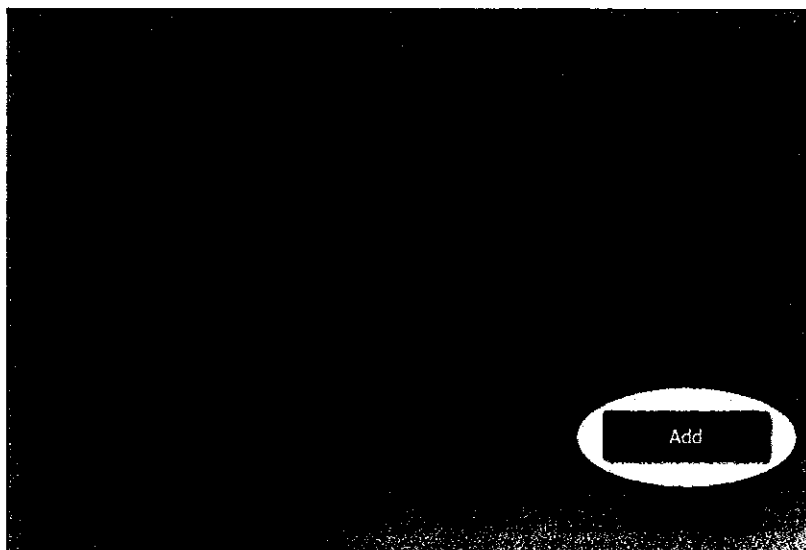
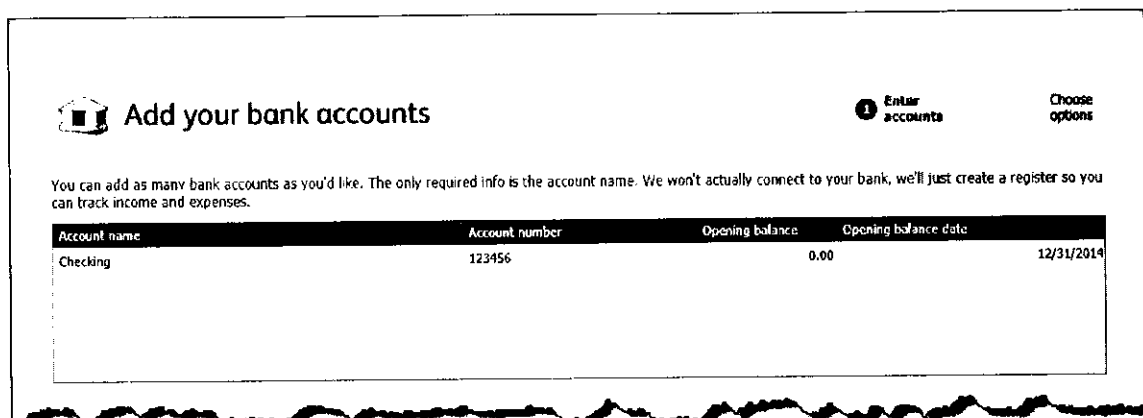


Figure 12-15 QuickBooks Setup

- Step 19. Enter the information in Figure 12-16 to setup the *Checking* account. For now, enter an *Opening Balance* of **0.00**. We will discuss setting up *Opening Balances* on page 391.



**Add your bank accounts**

1 Enter accounts Choose options

You can add as many bank accounts as you'd like. The only required info is the account name. We won't actually connect to your bank, we'll just create a register so you can track income and expenses.

Account name	Account number	Opening balance	Opening balance date
Checking	123456	0.00	12/31/2014

Figure 12-16 QuickBooks Quick Start Add your bank accounts

**Note:**

The *Account number* field in the *Add you bank accounts* window is for the account number assigned from your bank. This is a different number than the five digit QuickBooks Account Number discussed on page 377.

- Step 20. Click **Continue**.
- Step 21. Click **No Thanks** to the offer to purchase checks.
- Step 22. Click **Continue**.
- Step 23. Click the **Start Working** link at the bottom of the *QuickBooks Quick Start* window (see Figure 12-17).

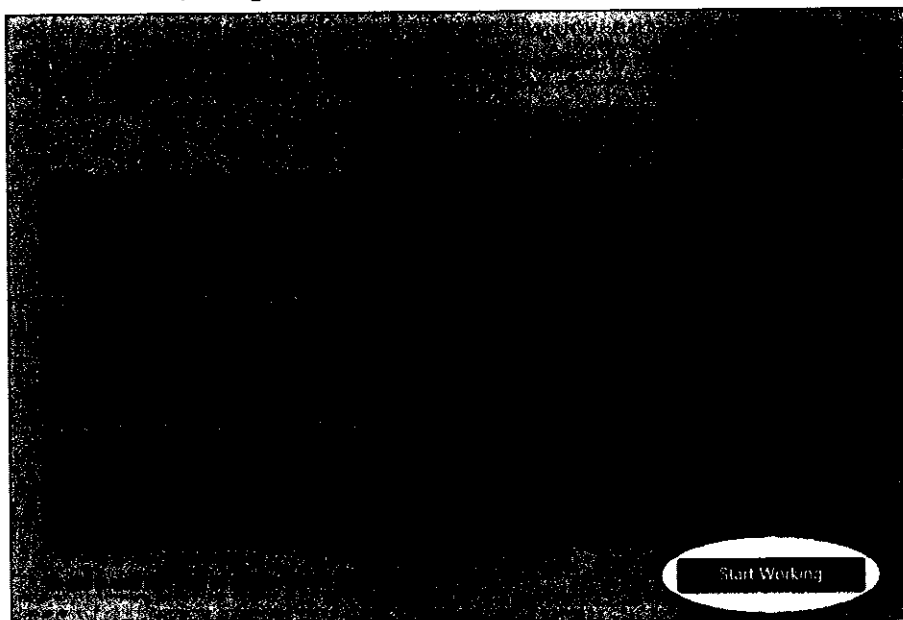


Figure 12-17 Start Working Link in QuickBooks Quick Start

- Step 24. QuickBooks has now created your company file with a default *Chart of Accounts* and a bank account, and has configured your *Company Preferences*.
- Step 25. Close the *Quick Start Center* window.
- Step 26. Close the company file.

## Setting Up the Chart of Accounts and Other Lists – Step 3

Restore the **Setup-12.QBM** file to your hard disk. See page 8 for instructions on restoring files. If you are using QuickBooks Premier Accountant, we recommend that you toggle to QuickBooks Premier General Business as described on page x.

### Setting Up the Chart of Accounts

The *Chart of Accounts* is one of the most important lists in QuickBooks. It is a list of all the accounts in the General Ledger. If you are not sure how to design your *Chart of Accounts*, ask your accountant or QuickBooks ProAdvisor for help.

### Account Types

There are five basic account *types* in accounting: assets, liabilities, equity, income, and expenses.

QuickBooks breaks these basic account types into subtypes. For example, QuickBooks uses five types of asset accounts: *Bank*, *Accounts Receivable*, *Other Current Asset*, *Fixed Asset*, and *Other Asset*. QuickBooks offers four types of liability accounts: *Accounts Payable*, *Credit Card*, *Loan*, *Other Current Liability*, and *Long Term Liability*. Income accounts can be divided into *Income* or *Other Income* types. Expenses can be classified as *Expense*, *Other Expense*, or *Cost of Goods Sold*. *Equity* doesn't have subtypes.

### Activating Account Numbers

QuickBooks does not require account numbers. If you prefer, you can use just the account *name* to differentiate between accounts. However, if you prefer to have account numbers, you can activate them in the *Accounting Company Preferences*.

For this section, you will turn on the account numbers, but at the end of *Setting up the Chart of Accounts* section, you will turn them off again.

### COMPUTER PRACTICE

Step 1. Select the **Edit** menu and then select **Preferences** (see Figure 12-18).

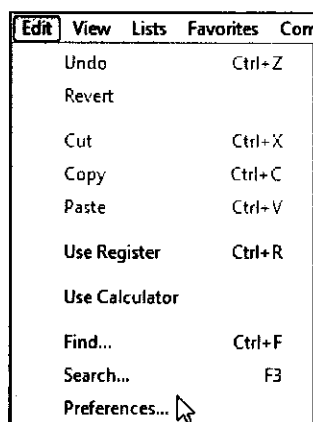


Figure 12-18 Choose Preferences from the Edit menu

Step 2. On the *Preferences* window, click on the **Accounting** option and select the **Company Preferences** tab.

Step 3. Check the **Use account numbers** box and click **OK**.

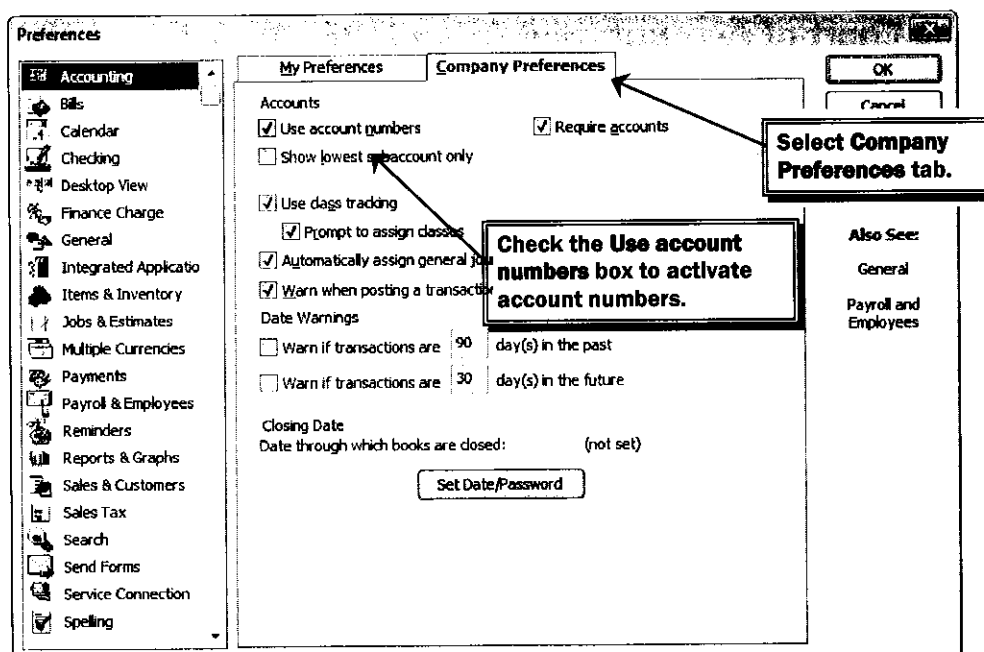


Figure 12-19 The Accounting—Company Preferences window

**Did You Know?**

All of the *Preferences* in Figure 12-19 are used to configure the way QuickBooks operates. For more information on these and other *Preferences*, see page 205.

**Adding Accounts****COMPUTER PRACTICE**

Step 1. Select the **Chart of Accounts** icon on the *Company* section of the *Home* page.

The *Chart of Accounts* list from your sample file is displayed, showing account numbers as well as account names (see Figure 12-20).

Name	Type	Balance Total	Attach
10100 • Checking	Bank	0.00	
10200 • Money Market	Bank	0.00	
10300 • Savings	Bank	0.00	
10900 • Journal Entries	Bank	0.00	
11000 • Accounts Receivable	Accounts Receivable	0.00	
12000 • Undeposited Funds	Other Current Asset	0.00	
12100 • Inventory Asset	Other Current Asset	0.00	
12800 • Employee Advances	Other Current Asset	0.00	
13100 • Prepaid Insurance	Other Current Asset	0.00	
15000 • Furniture and Equipment	Fixed Asset	0.00	
15200 • Buildings and Improvem...	Fixed Asset	0.00	
15600 • Land	Fixed Asset	0.00	
15900 • Leasehold Improvements	Fixed Asset	0.00	
16400 • Vehicles	Fixed Asset	0.00	
17000 • Accumulated Depreciation	Fixed Asset	0.00	
18700 • Security Deposits Asset	Other Asset	0.00	
20000 • Accounts Payable	Accounts Payable	0.00	
22000 • National Bank VISA Gold	Credit Card	0.00	

Figure 12-20 Chart of Accounts with account numbers

**Another way:**

To open the *Chart of Accounts*, you may also select **Chart of Accounts** from the *List* menu, or press **Ctrl+A**.

- Step 2. Select the **Account** drop-list button at the bottom of the *Chart of Accounts* window and select **New** (see Figure 12-21). Another way to add a new account is to press **Ctrl+N**.

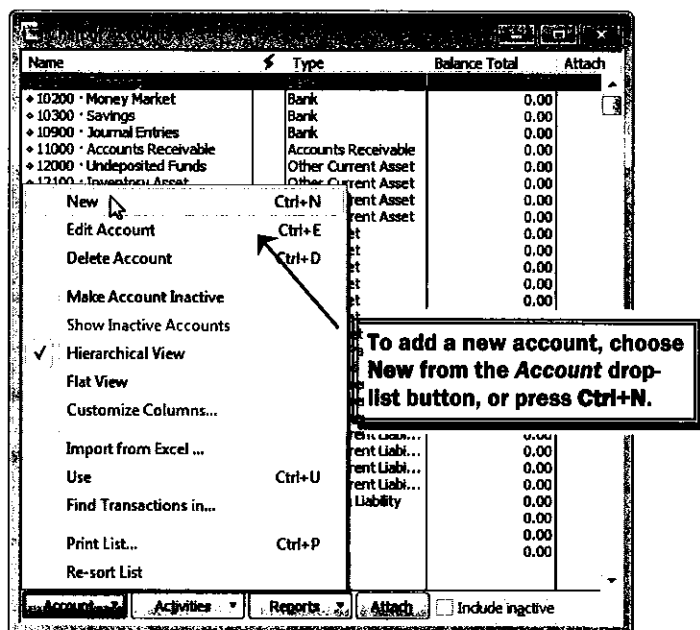


Figure 12-21 Adding an account

- Step 3. Select **Expense** from the choice of account types in the *Add New Account: Choose Account Type* window (see Figure 12-22). Click **Continue**.

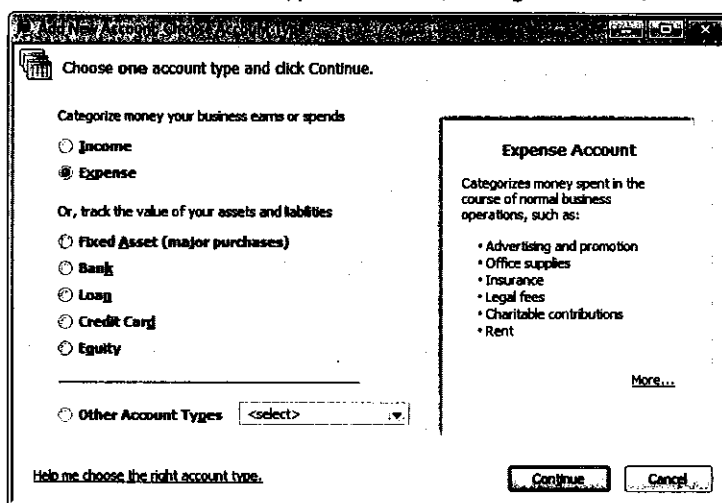


Figure 12-22 Add New Account: Choose Account Type Window

- Step 4. Enter **62600** in the *Number* field and then press **Tab**.
- Step 5. Enter **Entertainment** in the *Name* field and then press **Tab** twice.
- Step 6. Enter **Entertainment Expenses** in the *Description* field and then press **Tab** twice.

The *Description* field is optional. In previous versions, the *Description* field had a

limited length requiring short descriptions. Starting with the QuickBooks 2007, you can enter descriptions with up to 200 characters.

- Step 7. Select **Deductions: Other miscellaneous taxes** from the *Tax-Line Mapping* drop-down list.

If you or your accountant uses TurboTax, ProSeries, Lacerte, or other QuickBooks-compatible tax software to prepare your tax return, specify the line on your tax return that this account will feed. This allows the tax software to fill out your tax return automatically, based on the data in QuickBooks. If you do not use one of the supported tax programs to prepare your taxes, or if you do not wish to otherwise take advantage of any of the income tax reports in QuickBooks, you can leave this field blank.

- Step 8. Your screen should look like Figure 12-23. Click **Save & Close** at the bottom of the window to save the account.

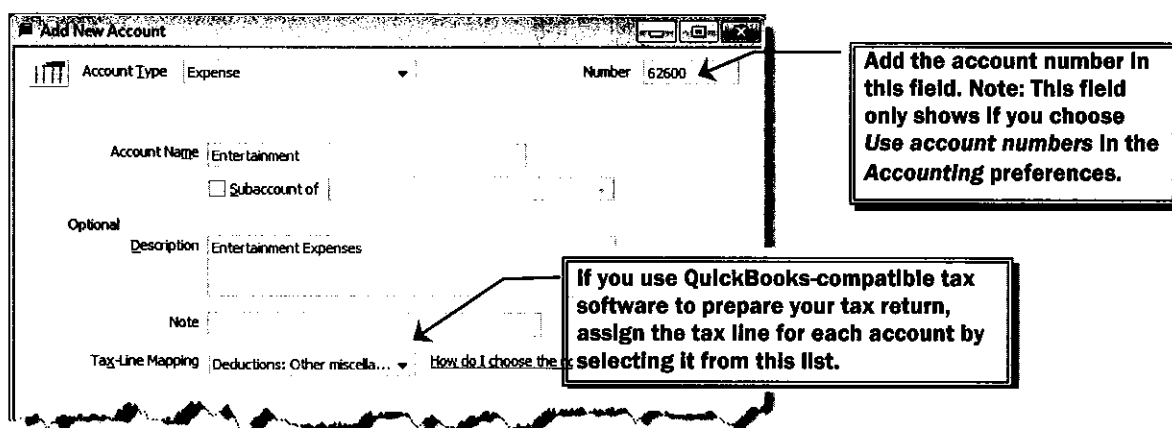


Figure 12-23 Add New Account window

## Adding Subaccounts

If you want more detail in your *Chart of Accounts*, you can add *Subaccounts*. Account types for the main account and its subaccounts *must* be same. You can add up to five levels of subaccounts.

### Did You Know?

Clicking the **Collapse** button on *Reports* that include Subaccounts (e.g., *Balance Sheet* and *Profit & Loss Reports*) removes the Subaccount detail from the report. The balance of each primary account on the collapsed report is the total of its subaccount balances.

## COMPUTER PRACTICE

- Step 1. Display the **Chart of Accounts** using any method shown previously, if it is not already displayed.
- Step 2. Select the **Account** drop-list button at the bottom of the *Chart of Accounts* window and select **New**.
- Step 3. Select the **Expense** option from the *Add New Account: Choose Account Type* window. Click **Continue**.
- Step 4. Fill out the **New Account** window as shown in Figure 12-24. Notice that the *Subaccount of* field is checked and the main account is selected in its field.



Step 5. Click **Save & Close** to save the record.

Account Type: Expense Number: 68180

Account Name: VoIP

☒ Subaccount of: 68100 Telephone Expense

Optional Description: Phone used via Voice Over Internet Protocol (VoIP)

Note:

Tax-Line Mapping: Deductions: Other miscella... [How do I choose the right tax line?](#)

Figure 12-24 Add a Subaccount for more detail in the Chart of Accounts.

Step 6. Now the *Chart of Accounts* shows your new subaccount slightly indented under its master account (see Figure 12-25).

#### Tip

Once subaccounts are set up under a main account, you should only use subaccounts and not the main account in transactions. Using the main account defeats the purpose of getting more detail. Also, in reports, whenever you see an account name with the string “-Other”, it means that you used main account instead of a subaccount. To see only subaccounts and not the main account in the drop-down list, select the **Show lowest subaccount only** checkbox in *Accounting Company Preference* (see Figure 12-26).

Name	Type	Balance Total	Attach
♦ 68100 Telephone Expense	Expense		
♦ 68130 Office Phone	Expense		
♦ 68150 Wireless Phone	Expense		
♦ 68180 VoIP	Expense		
♦ 68400 Travel Expense	Expense		
♦ 68600 Utilities	Expense		
♦ 70200 Interest Income	Other Income		
♦ 80000 Ask My Accountant	Other Expense		
♦ 90000 Estimates	Non-Posting		

Accounting Company Preference: ☐ Include inactive

Figure 12-25 Subaccounts appearance in the Chart of Accounts

Accounts

☒ Use account numbers

☒ Show lowest subaccount only

Figure 12-26 Account Numbers Preferences

## Removing Accounts from the Chart of Accounts

When you no longer need an account, it is best to remove the account from the *Chart of Accounts* List. Removing unnecessary accounts helps avoid data entry errors by ensuring that no transactions are accidentally posted to these accounts. There are three ways to remove an account from the *Chart of Accounts* List: deleting the account, deactivating the account, or merging the account with another account.

### Deleting Accounts – Option 1

To delete an account, follow these steps:

**DO NOT PERFORM THESE STEPS NOW. THEY ARE FOR REFERENCE ONLY.**

1. Select the account in the **Chart of Accounts** List.
2. Select the **Account** menu at the bottom of the *Chart of Accounts* window and select **Delete** or press **Ctrl+D** (see Figure 12-27).

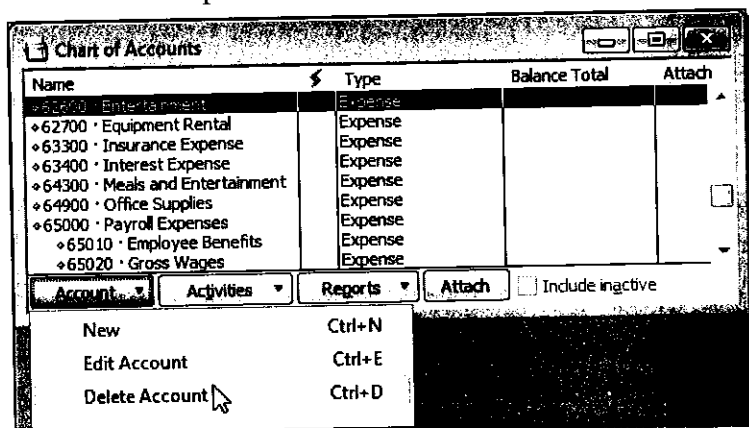


Figure 12-27 Deleting an account from the Chart of Accounts

It is important to note that QuickBooks will not allow you to delete an account if you have used the account in an Item record or a transaction. If this is the case and you still want to remove the account, use either Option 2 or Option 3 below.

### Deactivating Accounts – Option 2

If you cannot delete an account but you still want to remove it from your list, you can deactivate it. Deactivating an account causes it to be hidden in the *Chart of Accounts* List. Deactivating an old account reduces the clutter in your Lists while preserving your ability to see the account in historical transactions and reports.

#### Note:

Even if an Account (or Item or Name) is inactive, all transactions using that account (or Item or Name) will show on reports.

To make an account inactive, follow these steps:

**DO NOT PERFORM THESE STEPS NOW. THEY ARE FOR REFERENCE ONLY.**

1. Select the account in the **Chart of Accounts** list.

2. Select the **Account** button and then select **Make Inactive** from the menu (see Figure 12-28).

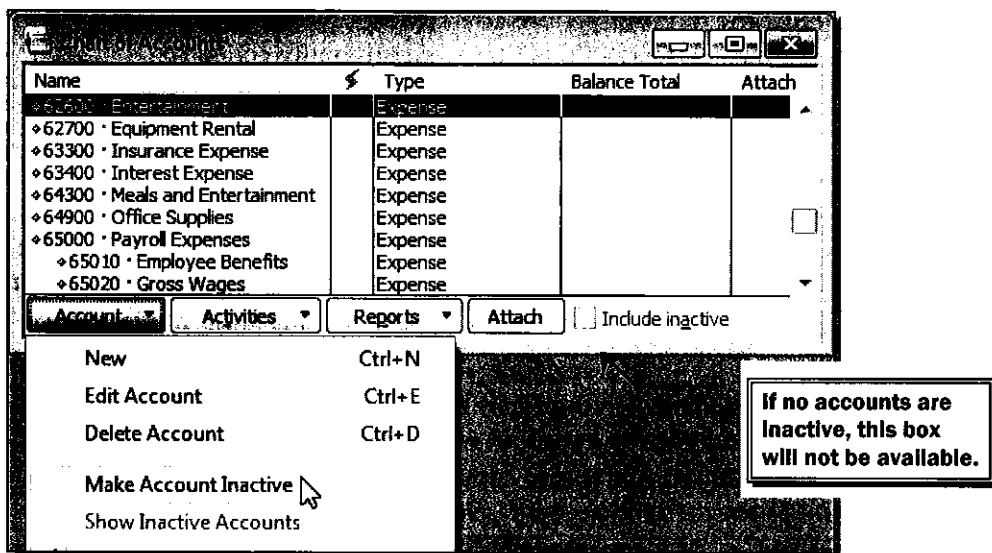


Figure 12-28 Making an account inactive in the Chart of Accounts

To view all accounts in the *Chart of Accounts*, including the inactive accounts, click **Include inactive** at the bottom of the *Chart of Accounts* window (see Figure 12-29). The icon in the far left column indicates that an account is inactive. To reactivate the account, click on the **X** icon.

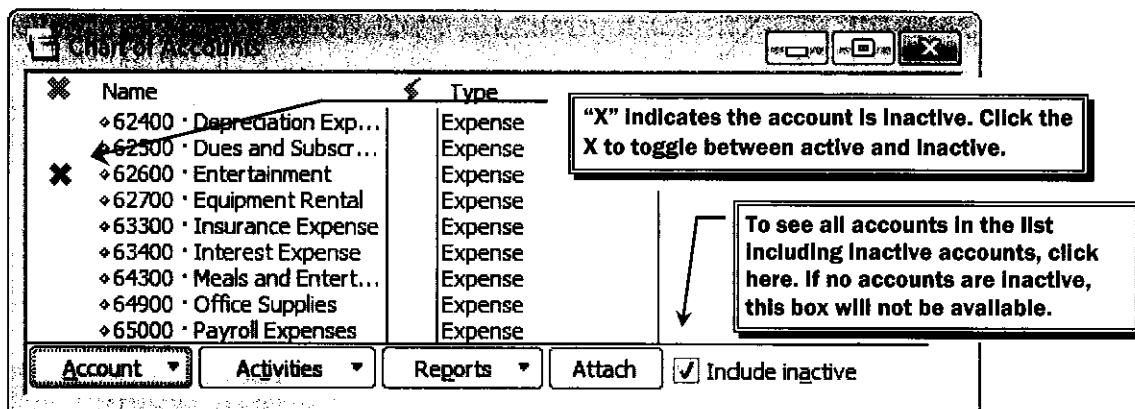


Figure 12-29 When the Show All Field is checked, all accounts appear in the list.

#### Did You Know?

You can also deactivate *Customers*, *Vendors*, *Employees*, or *Items* using this same method. Click in the **X** column to make lines on any list active or inactive.

### Merging Accounts – Option 3

When you merge two accounts, QuickBooks edits each transaction from the merging account so that it posts to the merged (combined) account. For example, if you merge the *Entertainment* account into the *Meals and Entertainment* account, QuickBooks will edit each transaction that had been posted to *Entertainment*, making it post to *Meals and Entertainment* instead. Then QuickBooks will remove the *Entertainment* account from the *Chart of Accounts* List.

**Important:**

Merging cannot be undone. Once you merge accounts together, there is no way to find out which account the old transactions used (except by reviewing from a backup file). In this example, all transactions that were originally coded to *Entertainment* will post to *Meals and Entertainment*.

**COMPUTER PRACTICE**

- Step 1. Display the **Chart of Accounts** List.
- Step 2. Select the account whose name you do not want to keep. Here you will merge the *Entertainment* account into *Meals and Entertainment*, so select **62600 Entertainment**.
- Step 3. Right-click on **62600 Entertainment** and then select **Edit Account**. Alternatively, press **Ctrl+E**.
- Step 4. Enter ***Meals and Entertainment*** in the **Name** field (see Figure 12-30) and then click **Save & Close**. You must enter the account name exactly as it appears in the *Chart of Accounts*. One way of ensuring this is to copy and paste the account name from the merged account to the merging account.

**Edit Account**

Account Type: Expense Number: 62600

Account Name: Meals and Entertainment

☐ Subaccount of

Optional Description: Entertainment Expenses

Note:

Tax-Line Mapping: Deductions: Other miscella...

☐ Account is inactive

**Save & Close** **Cancel**

**To merge the Entertainment expense account with the Meals and Entertainment expense account, change the name of the Entertainment account to Meals and Entertainment.**

Figure 12-30 Change the name of the account to exactly match the name of another account.

- Step 5. Now that this account has the same name as the other account, QuickBooks asks if you want to merge the two accounts (see Figure 12-31). Click **Yes**.

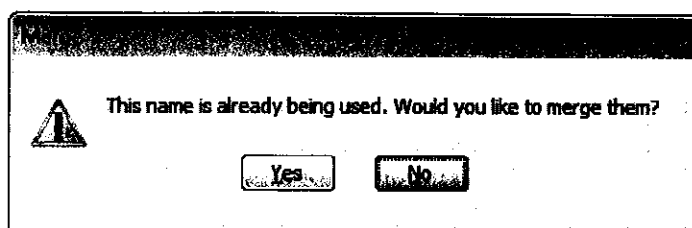


Figure 12-31 Click Yes to merge the accounts.

**Did You Know?**


If account numbers are in use, another way to merge accounts is to change the account number of one account to match the account number of another. This has the same effect as replacing the account name of the merging account with the account name of the merged account.

**Note:**

The merge feature is not limited to just the *Chart of Accounts* List; it can be used on most Lists within QuickBooks.

**Reordering the Account List**

There are several ways to reorder the *Chart of Accounts* list. By default, the Chart of Accounts list sorts first by account type and then alphabetically by account name within the account type (if account numbers are not in use) or numerically by account number within the account type (if account numbers are in use). For example, all of the bank accounts come first, followed by Accounts Receivable, Other Current Assets, and so on. The account types are arranged in the order in which they appear on financial statements.

You can sort the Chart of Accounts list by the account name or number, by the  (online status), or by the balance total column.

**DO NOT PERFORM THESE STEPS NOW. THEY ARE FOR REFERENCE ONLY.**

1. Display the **Chart of Accounts** (see Figure 12-32).
2. Click the **Name** column heading to sort the list.

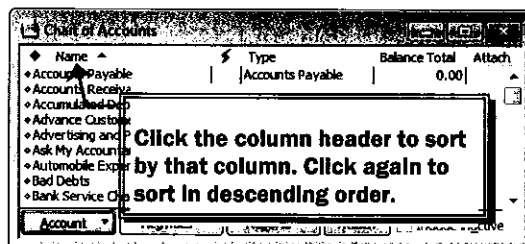


Figure 12-32 Chart of Accounts sorted by name

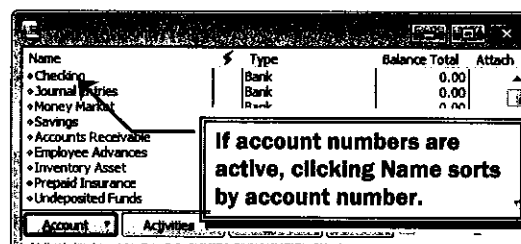



Figure 12-33 Chart of Accounts sorted by number

**Note:**

When account numbers are inactive and you click the *Name* header, QuickBooks sorts the account list alphabetically by account name.

However, when account numbers are active and you click the *Name* header, QuickBooks sorts the list by account number. Click the other headers to sort by  (Online status), *Type*, or *Balance*.

**Tip:**

When you assign account numbers, set numbering breaks that correspond to the account types. For example, number all of your asset accounts 10000-19999 and all of your liability accounts 20000-29999, and so forth. When you click the Name header to sort the *Chart of Accounts*, QuickBooks does not also sort the list by account type. Therefore, if you assign an account number of 70000 to a Bank account, QuickBooks will place that account near the bottom of the *Chart of Accounts*, regardless of its type. If you do not use account numbers, it is best not to use the Name header to sort the *Chart of Accounts*. Instead, select the **Account** menu and choose **Re-sort List**. This will sort the list by Account name (or number) while respecting the account types.

You can also use the mouse to drag the accounts up or down within the same account type. Within each account type, the order of the accounts in the Chart of Accounts determines the order of the accounts in financial statements and other reports.

**Tip:**

Once you have manually reordered the *Chart of Accounts*, all new accounts will automatically be added to the top of the list within its type, rather than in alphabetical order.

To reorder the *Chart of Accounts* List using the mouse, follow these steps:

**DO NOT PERFORM THESE STEPS NOW. THEY ARE FOR REFERENCE ONLY.**

1. If you have sorted the list by *Name*, *Online Status*, *Type*, or *Balance* by clicking on the column headers, click on the diamond to the left of the Name column header. This will remove the sorting (see Figure 12-34).

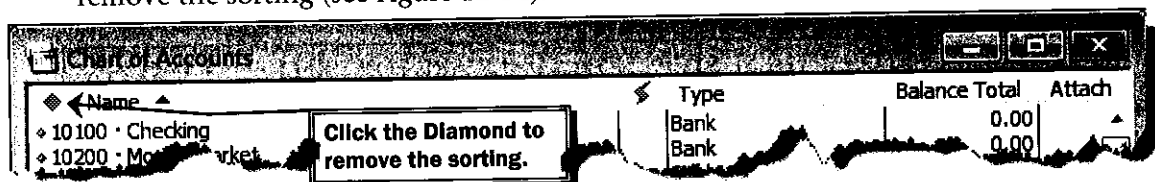


Figure 12-34 Chart of Accounts, sorted by account number

2. While holding down the mouse button, drag the account up or down (see Figure 12-35).

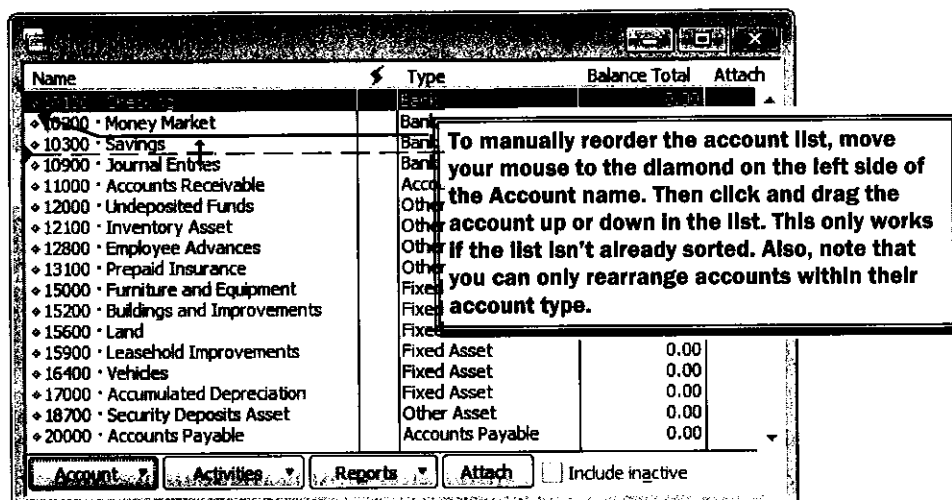


Figure 12-35 Reorder the list by moving an account with the mouse.

**Tip:**

To preserve proper financial statement presentation, you can only rearrange accounts within their account type. In addition, QuickBooks treats accounts with subaccounts as a group, so if you want to move your account above or beneath an account with subaccounts, you'll need to drag it above or below the group.

**Tip:**

If you use account numbers, it may be best to edit the numbers to move accounts up or down in the list. For example, if you want account #10400 to be above account #10300, you can edit its account number so that it is #10200. Then, you may need to select the Account menu and then select Re-sort List.

### Turning Off Account Numbers

For the rest of this chapter, we'll turn off the display of account numbers in the Chart of Accounts.

#### COMPUTER PRACTICE

- Step 1. Select the **Edit** menu and then select **Preferences**.
- Step 2. In the *Preferences* window, click on the **Accounting** icon and then select the **Company Preferences** tab.
- Step 3. Deselect the *Use account numbers* box and then click **OK**.

### Setting Up Other Lists

At this point in the 12-Step process, you would enter additional information in lists, such as *Customers* and *Vendors*. You can use the *QuickBooks Quick Start* (see page 375) to import *Customers*, *Vendors*, and *Employees* from contact lists in other formats, such as your Outlook contact list. For this exercise, the Setup-12.QBM file you restored earlier already has this data entered. Refer to page 34 and 98 for more information on adding *Customers* and *Vendors*.

## Setting Up Opening Balances – Step 4

### Gathering Your Information

After you've set up your *Chart of Accounts*, you're ready to enter your opening balances. To set up your opening balances, you will need to gather several documents, prepared as of your start date. The following is a list of items needed to complete your setup:

**Trial Balance:** Ask your accountant to provide you with a trial balance for your start date. If your start date is the end of your fiscal year, ask your accountant for an "after-closing" trial balance. The term "after-closing" means "after all of the income and expenses have been closed into Retained Earnings."

If a trial balance is not available, use an after-closing Balance Sheet and a year-to-date Income Statement as of your start date. Table 12-4 shows a sample after-closing trial balance for Academy Photography on the start date of 12/31/2014.

<b>Academy Photography</b>		
<b>Trial Balance</b> December 31, 2014		
	<b>Debit</b>	<b>Credit</b>
Checking	\$17,959.60	
Money Market	12,100.00	
Savings	500.00	
Accounts Receivable	1,253.41	
Inventory	7,158.67	
Furniture and Equipment	13,250.00	
Fixed Assets:Accumulated Depreciation		\$1,325.00
Accounts Payable		142.00
National Bank VISA Gold		2,152.00
Payroll Liabilities:Company PR Taxes		368.00
Sales Tax Payable		141.79
Line of Credit		6,700.00
Truck Loan		12,000.00
Common Stock		10,000.00
Retained Earnings		19,392.89
<b>TOTAL</b>	<b>\$52,221.68</b>	<b>\$52,221.68</b>

Table 12-4 Trial Balance on Academy Photography's start date

**Bank Statement (for all bank accounts):** You will need the most recent bank statement prior to your start date. For example, if your start date is 12/31/2014 you will need the 12/31/2014 bank statements for all of your accounts.



Business Checking Account		
Statement Date:	December 31, 2014	Page 1 of 1
<b>Summary:</b>		
Previous Balance as of 11/30/14:	\$	12,155.10
Total Deposits and Credits: 2	+ \$	10,157.28
Total Checks and Debits: 9	- \$	7,027.40
Total Interest Earned	+ \$	8.62
Total Service Charge: 1	- \$	10.00
<b>Statement Balance as of 12/31/14:</b>	<b>= \$</b>	<b>15,283.60</b>
<b>Deposits and Other Credits:</b>		
<b>DEPOSITS</b>		
Date	Description	Amount
8-Dec	Customer Deposit	\$ 6,150.00
20-Dec	Customer Deposit	\$ 4,007.28
<b>2 Deposits: \$</b>		<b>10,157.28</b>
<b>Checks and Other Withdrawals:</b>		
<b>CHECKS PAID:</b>		
Check No.	Date Paid	Amount
316	2-Dec	\$ 324.00
317	3-Dec	\$ 128.60
318	5-Dec	\$ 83.00
319	8-Dec	\$ 285.00
320	10-Dec	\$ 1,528.00
321	12-Dec	\$ 3,000.00
322	13-Dec	\$ 276.52
323	15-Dec	\$ 142.00
324	28-Dec	\$ 1,260.28
<b>6 Checks Paid: \$</b>		<b>7,027.40</b>
<b>INTEREST</b>		
Date	Description	Amount
31-Dec	Interest Earned	\$ 8.62
<b>Interest: \$</b>		<b>8.62</b>
<b>SERVICE CHARGES</b>		
Date	Description	Amount
31-Dec	Service Charge	\$ 10.00
<b>1 Service Charge: \$</b>		<b>10.00</b>

Figure 12-36 Bank Statement for Academy Photography on 12/31/2014

**Tip:**

If your bank statements are not dated on the end of each month, ask your bank to change your statement date to the end of the month. You may also be able to run a statement on your bank's Web site that ends on the date you choose.

**Unpaid Bills:** List each vendor bill by date of the bill, amount due, and what items or expenses you purchased on the bill (see Table 12-5).

Bill Number	Bill Date	Vendor	Amt. Due	Account/Item	Job	Class
2342	12/21/14	Wong & Son Video	\$142.00	Subcontractors Expense	Mason, Bob	San Jose

Table 12-5 Unpaid bills on Academy Photography's start date

**Outstanding Checks and Deposits:** You'll need a list of all of your checks and deposits that have not cleared the bank as of the bank statement dated on or prior to your start date.

OUTSTANDING DEPOSITIS AT 12/31/14			
Date	Description	Amount	
12/30/14	Customer Deposit	\$3,000.00	
1 Deposit:		\$3,000.00	
OUTSTANDING CHECKS AT 12/31/14			
Check No.	Date Paid	Payee	Amount
325	12/26/14	National Bank	\$324.00
1 Check:		\$324.00	

Table 12-6 Outstanding deposits and checks on Academy Photography's start date

**Open Invoices:** List each customer invoice including the date of the invoice, amount due, and the items sold on the invoice (see Table 12-7).

Inv #	Invoice Date	Customer:Job	Class	Terms	Item	Qty	Amt Due
3947	12/18/14	Mason, Bob	San Jose	Net 30	Camera	1	\$695.99
					Santa Clara Tax		8.25%
					Total		\$753.41
4003	12/21/14	Cruz, Maria: Branch Opening	San Jose	2% 10 Net 30	Photographer 4 Hrs.	125/hr	\$500.00
					Total		\$500.00

Table 12-7 Open Invoices on Academy Photography's start date

**Employee list and W-4 information for each employee:** Gather complete name, address, social security number, and withholding information for each employee.

**Note:**

The next three payroll-related lists are necessary only if your start date is in the middle of a calendar year and you want to track payroll details with QuickBooks. If your start date is 12/31, skip these lists and enter the opening balances for payroll liabilities in the liability accounts as shown later in this section.

If your start date is 12/31, you need to enter the detail from these lists only if you want to use QuickBooks to create payroll reports, Form 940, Form 941, or W-2s for the previous year.

All payroll setup instructions are covered in the "Payroll Setup" chapter beginning on page 299.

**Payroll Liabilities by Item:** List the amount due for each of your payroll liabilities as of your start date. For example, list the amounts due for federal withholding tax, social security (employer), social security (employee), and any other payroll liabilities.

**Year-to-Date Payroll Detail by Employee:** If your start date is not 12/31 and you want QuickBooks to track your payroll, you will need gross earnings, withholdings, employer taxes, and any other deductions for each employee so far this year. For the most detail, this list should include each employee's earnings *for each month* this year.

**Year-to-Date Payroll Tax Deposits:** If your start date is not 12/31, list each payroll tax deposit during the year by *Payroll Item*.

**Physical Inventory by Inventory Part:** List the quantity and cost for each product in inventory (see Table 12-8).

**Tip:**

If you don't have actual counts and costs for your inventory, you'll need to estimate. However, the accuracy of your reports will be compromised if you don't have accurate setup numbers. If possible, we strongly recommend conducting a physical inventory as of your QuickBooks start date.

Physical Inventory at 12/31/14		
Item	Qty. on Hand	Value
Camera	10	\$4,500.00
Case	25	1,125.00
Frame	25	53.75
Lenses	8	1,479.92

Table 12-8 Physical inventory on Academy Photography's start date

## Opening Balances for Accounts

To enter opening balances, you can either edit the account in the *New Account* or *Edit Account* window, or create a *General Journal Entry*. Entering the *Opening Balance* in the *New Account* or *Edit Account* window is a good method for setting up a single account. General Journal Entries allow you to set up the Opening Balances for several accounts at once.

When entering opening balances for bank accounts and credit cards, it is very important to use the ending balance from the bank statement dated on (or just prior to) your start date.

Account Type: Bank

Account Name: Checking

☐ Subaccount of

Optional

Description: National Bank Checking Account

Bank Acct. No.

Routing Number

Tax-Line Mapping: B/S-Assets: Cash

[How do I choose the right tax line?](#)

[Enter Opening Balance...](#) [Should I enter an opening balance?](#)

☐ Remind me to order checks when I reach check number

☐ Order checks I can print from QuickBooks [Learn more](#)

☐ Account is inactive

[Set Up Online Services...](#) [Save & Close](#) [Cancel](#)

Figure 12-37 Enter an opening balance in the Edit Account window.

## Setting Up Opening Balances

### Gathering Your Information

After you've set up your company, you need to enter up your opening balances for each account. The following steps will help you get started.

**Trial Balance:** After you enter your start date and opening balance, the Trial Balance will be closed into the new year. If a trial balance is not available, the Statement of Assets and Liabilities will be used.

Following steps for each of your Balance Sheet accounts:

1. Click on it.

2. Click the **Edit** button in the window and then select **Edit**.

3. Click **Figure 12-37**.

4. In the **Statement Ending Date** field (see Figure 12-38), enter the date.

5. In the **Statement Ending Balance** field, enter the balance.

6. Click **OK** to save the information.

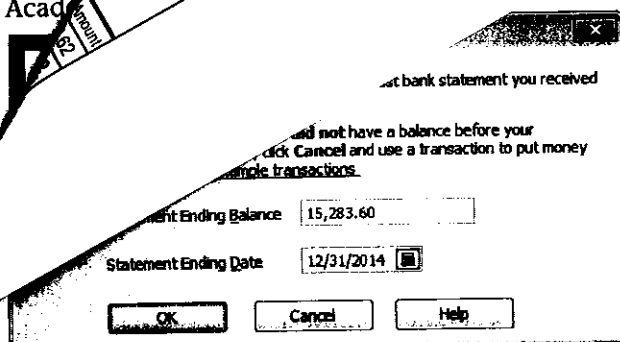


Figure 12-38 Enter Opening Balance for a Bank Account window

- Step 7. Click **OK** to finalize the *Enter Opening Balance: Bank Account* window. Then, click **Save & Close** on the *Edit Account Window*. Repeat Steps 2 through 7 for the *Money Market* account. Enter an opening balance of **\$12,100.00** as of **12/31/2014** (see Figure 12-39).

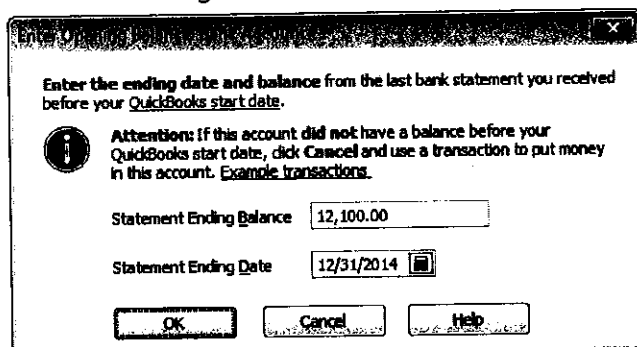


Figure 12-39 Edit the Money Market account to enter an opening balance

#### Accounting Behind the Scenes:

When you enter an opening balance in an account, a transaction posts to the account and to *Opening Balance Equity*. Also, the opening balance in the account becomes the *Beginning Balance* for the first bank reconciliation.

**Note:**

QuickBooks does not allow you to directly enter the opening balance for *Accounts Receivable*, *Undeposited Funds*, *Accounts Payable*, *Sales Tax Payable*, or *Opening Balance Equity*. To enter opening balances for these accounts, see later in this chapter.

**Recording Opening Balances Using a General Journal Entry**

*General Journal Entries* allow you to record debits and credits to specific accounts. Other forms in QuickBooks, such as *Invoices* or *Bills*, take care of the credits and debits for you, behind the scenes (See page 2). *General Journal Entries* record transactions that cannot otherwise be recorded using QuickBooks forms.

Because total debits always equal total credits, the total of the debit column and the total of the credit column must be equal or you will not be able to save the *General Journal Entry*. QuickBooks automatically calculates the amount required to make these entries balance as you create each new line in the *General Journal Entry*. On the last line of the *General Journal Entry*, code the amount QuickBooks calculates to the Opening Bal Equity account. This amount may be a debit or a credit, depending on the other figures in the entry.

Although the *Trial Balance* doesn't show any balance in Opening Bal Equity, you use this account during setup to keep everything in balance. At the end of the setup process, you'll transfer the balance from this account into Retained Earnings, as shown later in the setup steps.

You can use a *General Journal Entry* to record some, but not all, of your opening balances. Do not include the following accounts in the *General Journal Entry*: Accounts Receivable, Accounts Payable, Inventory, Sales Tax Payable, and Retained Earnings. You will enter the opening balance for these accounts later in the 12-Step setup.

**COMPUTER PRACTICE**

Use the information from the Trial Balance on page 388 to complete the following steps:

- Step 1. Select the **Company** menu and then select **Make General Journal Entries**. If necessary, click **OK** in the *Assign Numbers to Journal Entries* dialog box. If you are using QuickBooks Premier Accountant, select *Make General Journal Entries* from the *Accountant* menu.
- Step 2. Fill in the **Make General Journal Entries** window as shown in Figure 12-40.

Account	Debit	Credit	Memo	Name	Billable?	Class
Journal Entries			Setup Opening Balance			
Savings	500.00		Setup Opening Balance			
Furniture and Equipment	13,250.00		Setup Opening Balance			
Accumulated Depreciation		1,325.00	Setup Opening Balance			
National Bank VISA Gold		2,152.00	Setup Opening Balance			
Payroll Liabilities: Company Payroll Taxes Payable		368.00	Setup Opening Balance			
Line of Credit		6,700.00	Setup Opening Balance			
Truck Loan		12,000.00	Setup Opening Balance			
Capital Stock		10,000.00	Setup Opening Balance			
Opening Bal Equity	18,795.00		Setup Opening Balance			
<b>Totals</b>	<b>32,545.00</b>	<b>32,545.00</b>				

Figure 12-40 Enter opening balances using a General Journal Entry.

**Note:**

On the top line of each General Journal Entry, use an account called *Journal Entries*, as shown in Figure 12-40. Use the *Bank* account type when setting up this account in your *Chart of Accounts*. The *Journal Entries* account will never have a balance, so it will never show on financial statements, but it will have a register where you'll be able to look at all of your *General Journal Entries*.

- Step 3. Click **Save & Close** to save the entry.
- Step 4. QuickBooks will warn you that you can set up Fixed Asset Items from the *Fixed Asset Item List*. Click **OK**. If you see the *Items not assigned classes* dialog box, click the **Save Anyway** button.

**Important Note:**

In this example, you're setting up the opening balances for Payroll Liabilities directly in the accounts instead of first setting up the Payroll function. This way, you can finalize your opening balances before worrying about the Payroll setup, and you can separate the tasks of Company setup and Payroll setup.

Remember though, because we've set up the liabilities outside of the Payroll system, your first Payroll Liability payment (for last year's liability), must be entered using the *Write Checks* window instead of the *Pay Liabilities* window. Alternatively, you could set up the Payroll Liability Balances using the *Adjust Liabilities* window with the *Do not Affect Accounts* setting. Then, you would use the *Pay Liabilities* window to pay your opening Payroll Liability balances.

The *General Journal Entry* in Figure 12-40 will set up the opening balances in *most* of the asset, liability, and equity accounts. You will not include some of the assets and liabilities in this *General Journal Entry* because you will enter their balances later in the 12-Step setup. For example, you'll exclude Accounts Receivable and Accounts Payable because you will create

*Invoices* and *Bills* to enter these accounts, respectively. See "Entering Open Bills (Accounts Payable)" on page 396.

If you enter bank accounts through a *General Journal Entry*, the starting balance on your first Bank Reconciliation will be zero. If you want your starting balance to equal your Opening Balance, enter the bank account's Opening Balance in the *Edit Account* window.

## ***Understanding Opening Bal Equity***

As you enter the opening balances for your assets and liabilities, QuickBooks automatically adds offsetting amounts in the *Opening Bal Equity* account. This account, which is created automatically by QuickBooks, is very useful if used properly. As you'll see later in this section, each of the opening balance transactions you enter into QuickBooks will affect this account. Then, after you have entered all of the opening balances, you'll "close" *Opening Bal Equity* into *Retained Earnings* (or *Owner's Equity*).

### **Tip:**

By using the *Opening Bal Equity* account during setup, you will quickly be able to access the detail of your setup transactions by looking at the *Opening Bal Equity* register.

## **Entering Open Items -- Step 5**

### ***Entering Outstanding Checks and Deposits***

To help with the first reconciliation, you want all of the outstanding checks and deposits to show in QuickBooks so that you can match them with your first bank statement after the start date. If you don't enter the individual transactions, you won't see them in the QuickBooks reconciliation window. In addition, if a transaction never clears the bank, you won't know which transaction it was without going back to your old records.

#### **COMPUTER PRACTICE**

For each of your bank accounts and credit cards, enter all outstanding checks (or charges) and deposits (or payments) as additional transactions in the account register. Enter each outstanding check and deposit with the date the check was written or the deposit made, and post each transaction to *Opening Bal Equity*.

- Step 1. With the **Chart of Accounts** open, double-click on the **Checking** account to display its register.
- Step 2. Enter new transactions directly in the register for each outstanding check and deposit (see Figure 12-41). See the list of outstanding checks and deposits in Table 12-6 on page 390.
- Step 3. Close the **Checking** register and the **Chart of Accounts**.

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By default, the outstanding checks and deposits will sort into date order in the register, before the Opening Balance transaction.

Pay	Memo	324.00		-324.00
Party	O/S Check		3,000.00	2,676.00
Opening Bal Equity	O/S Deposit	✓	15,283.60	17,959.60
Opening Bal Equity	Account Opening Balor			
Payee				17,959.60
Account				

The balance including the outstanding checks and deposits must match your accountant's trial balance.

Record Restore

Sort by Date, Type, Number, ...

Figure 12-41 Checking account register with outstanding checks and deposits

## Entering Open Bills (Accounts Payable)

### COMPUTER PRACTICE

Enter your Unpaid Bills and Vendor Credits as of the start date. Use the original date of the bill (or credit) along with all of the details (terms, vendor, etc.) of the bill. By entering the individual bills, you can preserve detailed job costing and class tracking data if needed.

- Step 1. Click **Enter Bill** on the *Home page*, or select the **Vendors** menu and then select **Enter Bills**.
- Step 2. Enter the **Bill** as shown in Figure 12-42.
- Step 3. Click **Save & Close** to save the transaction.

Enter Bill

Previous Next Save Find History Attach Pay bill

☒ Bill ☐ Credit ☒ Bill Received

**Vendor** Wong & Son Video [Edit Vendor](#)

**Summary**

Phone 408-555-4977

Open balance 0.00

POs to be received 0

**Recent Transactions** [QuickReport](#)

**Notes** [Edit](#)

**Bill**

Vendor Wong & Son Video Date 12/21/2014

Address Wong & Son Video Ref No 2552

Meriden, CA 94573 Amount Due 142.00

Bill Date 01/20/2015

Terms Net 30 Discount Date

Memo Used Bill on Start Date

**Expenses** \$142.00 **Items** \$0.00

Account	Amount	Memo	Customer: Job	Billable?	Class
Subcontracted Services	142.00	Video Services	Mason, Bob	<input type="checkbox"/>	San Jose

Clear Splits Recalculate Save & Close Save & New Clear

Figure 12-42 Enter the open Bill with the actual Bill date and the Bill due date.

## Entering Open Invoices (Accounts Receivable)

Enter each *Invoice* or *Credit Memo* as of the Start Date. Enter each *Invoice* with its original date along with all of the details (terms, customer, etc.) of the original *Invoice*.



**COMPUTER PRACTICE**

- Step 1. From the *Home* page click **Create Invoices** or select **Create Invoices** from the *Customers* menu. If you see the *Professional Services Form* dialog box, click **OK**.
- Step 2. Enter the **Invoice** as shown in Figure 12-43. When you see the warning about insufficient quantities, click **OK**. If you receive a warning about *Not Enough Quantity and/or Tracking Customer Orders*, click **OK**. Make sure you use the date of the original invoice on this *Invoice*, along with all of the detail from that invoice, exactly as shown in Figure 12-43. Make sure the **Academy Photo Service Invoice** is selected in the *Template* field.
- Step 3. Click **Save & New** to save the transaction and display a new *Invoice*.

**Invoice**

Customer: Job  
Mason, Bob

Class  
San Jose

Template  
Academy Photo Ser...

Date  
12/18/2014

Invoice #  
3947

**This invoice was still outstanding at the end of the year, so enter it into QuickBooks. Use the actual invoice date.**

Item | Quantity | Description | Rate | Class | Amount | Tax

Camera SR32	1	Supra Digital Camera SR32	695.99	San Jose	695.99	Tax
-------------	---	---------------------------	--------	----------	--------	-----

Customer  
Message

Tax  
Santa Clara (8.25%) 57.42

Total 753.41

Customer Tag Code Tax

Memo

Learn more

Save & Close Save & New Clear

Summary

Phone 408-555-8225

Email

Open balance 0.00

Active estimates 0

Sales Orders to be invoiced 0

Recent Transactions QuickReport

Notes Edit

Figure 12-43 Enter the open Invoice with the original Invoice date.

- Step 4. Enter another Invoice as shown in Figure 12-44. Click **Save & Close** to save the *Invoice*.

**Create Invoice**

Customer: Job  
Cruz, Maria: Branch Opening

Class  
San Jose

Template  
Academy Photo Ser...

Date  
12/21/2014

Invoice #  
4003

**Invoice**

Bill To  
Maria Cruz  
123 First Street  
Walnut Creek, CA 94596

Item	Quantity	Description	Rate	Class	Amount	Tax
Photographer	4	Photographer	125.00	San Jose	500.00	Non

Customer Message

Tax  
Contra Costa (8.25%) 0.00

Total 500.00

Customer Tag Code Tax

Payments Applied 0.00

Balance Due 500.00

Enable online payment

Save & Close Save & New Clear

**Customer**  
Cruz, Maria: Branch Opening

**Summary**

Phone 925-555-8344

Email

Open balance 0.00

Credit Limit 3,000.00

Active estimates 0

Sales Orders to be invoiced 0

**Recent Transactions**

**QuickReport**

**Notes**

**Edit**

Figure 12-44 Enter this open Invoice.

**Note:**

When you set up your company file, it is important that you enter all *Invoices*, *Credit Memos*, *Bills*, and *Bill Credits* separately. QuickBooks needs the details of the transactions, such as the date, terms, and Customer or Vendor information, to prepare accurate aging reports (e.g., *Unpaid Bills Detail* and *A/R Aging Summary*).

In addition, when you receive money against one of your prior year *Invoices* or pay a prior year *Bill*, you will need individual *Invoices* and *Bills* against which to match the receipts and payments.

**Entering Open Purchase Orders**

If you have open *Purchase Orders*, enter them individually, just as you did with *Bills*, *Bill Credits*, *Invoices*, and *Credit Memos*. Enter each *Purchase Order* with its original date and all of its details. If you have partially received items on the *Purchase Order*, enter only the quantities yet to be received from the Vendor.

**Entering Open Estimates and Sales Orders**

If you have open *Estimates* and/or *Sales Orders* (for Premier and Enterprise only), enter them individually, just as you did with *Bills*, *Bill Credits*, *Invoices*, and *Credit Memos*. Enter each *Estimate* and/or *Sales Order* with its original date and all of its details. If you have already progress-billed a portion of the *Estimate* or delivered part of the *Sales Order*, enter only the remaining amount to be invoiced.

**Entering Year-to-Date Income and Expenses – Step 6**

Earlier you learned that Income and Expense accounts are totaled at the end of the fiscal year as the Net Profit (or Loss) and is combined with Retained Earnings (see page 2). In this

chapter's exercise the start date is the end of the fiscal year. Later in the 12-Step process you will see the Income and Expense accounts zeroed out and their balances combined with Retained Earnings on the first day of the year (1/1/15). However, when your company file has a start date that is *not* the end of the fiscal year, the year-to-date amounts for the Income and Expense accounts will need to be entered as a *General Journal Entry* (see Figure 12-45).

**THE GENERAL JOURNAL ENTRY SHOWN IN FIGURE 12-45 IS FOR REFERENCE ONLY. IT SHOWS A MID-YEAR SETUP ENTRY. DO NOT ENTER IT NOW.**

Account	Debit	Credit	Memo	Name	B...	Class
Journal Entries			To Record Year To Date Income and Expense			
Sales		5,000.00	To Record Year To Date Income and Expense			San Jose
Sales		9,398.00	To Record Year To Date Income and Expense			Walnut Creek
Services		3,196.00	To Record Year To D			
Services		32,562.00	To Record Year To D			Creek
Cost of Goods Sold	8,000.00		To Record Year To D			
Subcontracted Services	2,000.00		To Record Year To D			Creek
Subcontracted Services	3,500.00		To Record Year To D			
Payroll Expenses:Gross Wages	13,000.00		To Record Year To Date Income and Expense			
Payroll Expenses:Employee Benefits	2,000.00		To Record Y			
Office Supplies	124.00		To Record Y			
Opening Bal Equity	21,532.00		To Record Y			
Totals	50,156.00	50,156.00				

Figure 12-45 The General Journal Entry for a start date after the beginning of the year

## Adjusting Opening Balance for Sales Tax Payable – Step 7

To enter the opening balance for *Sales Tax Payable*, begin by opening the *Sales Tax Payable* register to view the activity in the account. Notice that there are entries for each of the *Invoices* you just entered. This is your *uncollected* tax. Since the total Sales Tax Liability is a combination of the *collected* tax and the *uncollected* tax, you will need to subtract the current balance in the account (the *uncollected* tax) from the amount shown on the trial balance from your accountant (or your 12/31/2014 sales tax return) to arrive at the unpaid *collected* tax.

$$\text{TotalTaxDue} = \text{CollectedTax} + \text{UncollectedTax}$$

$$\text{CollectedTax} = \text{AmountsAlreadyCollectedButNotPaid}$$

$$\text{UncollectedTax} = \text{TaxOnOpenInvoices}$$

...therefore

$$\text{AdjustmentAmount} = \text{CollectedTax} = \text{TotalTaxDue} - \text{UncollectedTax}$$

Equation 12-1 Calculating the amount of your sales tax adjustment

For example, you know from the trial balance that Academy Photography's Total Tax Due is \$141.79. The Uncollected Tax has already been entered with *Invoice* #3947. The sales tax on this *Invoice* was \$57.42. By subtracting the Uncollected Sales Tax (\$57.42) from the Total Tax Due (\$141.79), you can calculate the Collected Tax, \$84.37.

Then create a *Sales Tax Adjustment* for this collected tax amount.

### COMPUTER PRACTICE

- Step 1. Select the **Vendors** menu, then select **Sales Tax**, and then select **Adjust Sales Tax Due**.
- Step 2. Complete the *Sales Tax Adjustment* window as shown in Figure 12-46 and then click **OK**. If you see the *Items not assigned classes* dialog box, click the **Save Anyway** button.

If you pay sales tax to more than one sales tax agency, you will need to enter a separate adjustment for each agency.

Figure 12-46 The Sales Tax Adjustment window

#### Did You Know?

The *Sales Tax Adjustment* window creates a *General Journal Entry* transaction in QuickBooks. Therefore, the Entry No. field will display the next *General Journal Entry* number in sequence. If you prefer, you could instead enter this adjustment using a *General Journal Entry*.

## Adjusting Inventory and Setting up Fixed Assets – Step 8

If you have inventory, you will need to create an inventory adjustment to enter the actual quantity and value on hand as of your start date. This is done *after* you enter your outstanding *Bills* and *Invoices*, so that the actual inventory counts and costs will be accurate even if some of the *Bills* and/or *Invoices* include *Inventory Items*.

As with the adjustment to Sales Tax Payable, begin by opening the *Inventory* register to view the activity and the current balance. Also, open the *Item List* to view the current stock status of each Inventory Item. Then adjust the quantity on hand and value of each item so that Inventory will agree with the physical inventory counts and the company's trial balance as of your start date.

## Adjusting Inventory for Actual Counts

### COMPUTER PRACTICE

- Step 1. Select the **Vendors** menu, then select **Inventory Activities**, and then select **Adjust Quantity/Value on Hand**.
- Step 2. Choose **Quantity and Total Value** from the *Adjustment Type* field (see Figure 12-47).
- Step 3. Enter **12/31/2014** in the *Adjustment Date* field. Press **Tab**.
- Step 4. Select **Opening Bal Equity** in the *Adjustment Account* field.
- Step 5. Click **OK** on the *Income or Expense expected* warning window.
- Step 6. Enter **2014-3** in the *Ref. No.* field. Press **Tab**.
- Step 7. Leave both the *Customer:Job* and *Class* fields blank.
- Step 8. Enter the information in Figure 12-47.
- Step 9. Click **Save & Close** to record the transaction. If you see the *Items not assigned classes* dialog box, click the **Save Anyway** button.

Previous Next Attach

Adjustment Type: Quantity and Total Value

Adjustment Date: 12/31/2014

Adjustment Account: Opening Bal Equity

Reference No.: 2014-3

Customer: Job

Class

Add Multiple Items...

Item	Description	Qty on Hand	New Quantity	Qty Difference	New Value
Camera SR32	Supra Digital Camera SR32	-1	10	11	4,500.00
Case	Camera and Lens High Impact Case	0	25	25	1,125.00
Frame 5x7	Picture Frame - 5' x 7' Metal Frame	0	25	25	53.75
Lens	Supra Zoom Lens	0	8	8	1,479.92

Memo

Total Value of Adjustment: 7,608.67

Number of Item Adjustments: 4

Item Info After Adjustment

Quantity on Hand: 10

Avg Cost per Item: 450.00

Value: 4,500.00

Save & Close Save & New Clear

Figure 12-47 Adjust inventory as of the start date

## Setting up Fixed Assets

If you have QuickBooks Pro or Premier, you can track detailed information about your company's Fixed Assets. You can set up detailed information about each asset using the *Fixed Asset Item List*. Then, if your accountant uses QuickBooks Premier: Accountant, he or she can use the *Fixed Asset Manager* to individually calculate and track depreciation on each asset.

## Setting up Loans

If you have QuickBooks Pro or Premier, you can track detailed information about your loans. You can individually track and amortize each of your loans so that QuickBooks will automatically allocate the principal and interest on each payment.

## Setup Payroll and YTD Payroll Information – Step 9

Setting up Payroll in QuickBooks is a lengthy and involved process. Refer to the “Payroll Setup” chapter beginning on page 299 for more information about setting up the Payroll feature.

## Verifying your Trial Balance – Step 10

Before you transfer the balance of *Opening Bal Equity* into *Retained Earnings*, make sure the account balances in QuickBooks match your accountant’s trial balance.

### COMPUTER PRACTICE

- Step 1. Select the **Reports** menu, then select **Accountant & Taxes**, and then select **Trial Balance**.
- Step 2. Set the *From* and *To* date field to your start date as shown in Figure 12-48.
- Step 3. After reviewing the *Trial Balance*, write down the balance of the *Opening Bal Equity* account, and close the window. Click **No** if you are given the option to memorize the report.

Notice that the *Trial Balance* in Figure 12-48 looks slightly different from your accountant’s report (in Table 12-4). For example, there are balances in several income and expense accounts, as well as in *Opening Bal Equity*. Do not worry about this difference at this point; you are not finished with the setup yet. Your *Trial Balance* could also differ from your accountant’s report if the reporting basis on the two reports is not the same. For example, if you create an accrual basis *Trial Balance* and your accountant’s *Trial Balance* is cash basis, the balances in the income and expense accounts may be different. Regardless of which method of accounting you use, QuickBooks will automatically close the balances in the income and expense accounts at the end of each year. Therefore, at this point in your setup, you should create an accrual basis *Trial Balance*, regardless of which basis you will ultimately use on reports. Just verify that all of the *Balance Sheet* account balances are accurate.

The income and expense accounts have balances because you just entered *Invoices* and *Bills* for the open invoices and unpaid bills. Those *Invoices* and *Bills* were dated during the prior year, so those transactions add to income and expenses for that year.

**Note:**

To learn more about the cash or accrual basis of accounting see the section beginning on page 164.

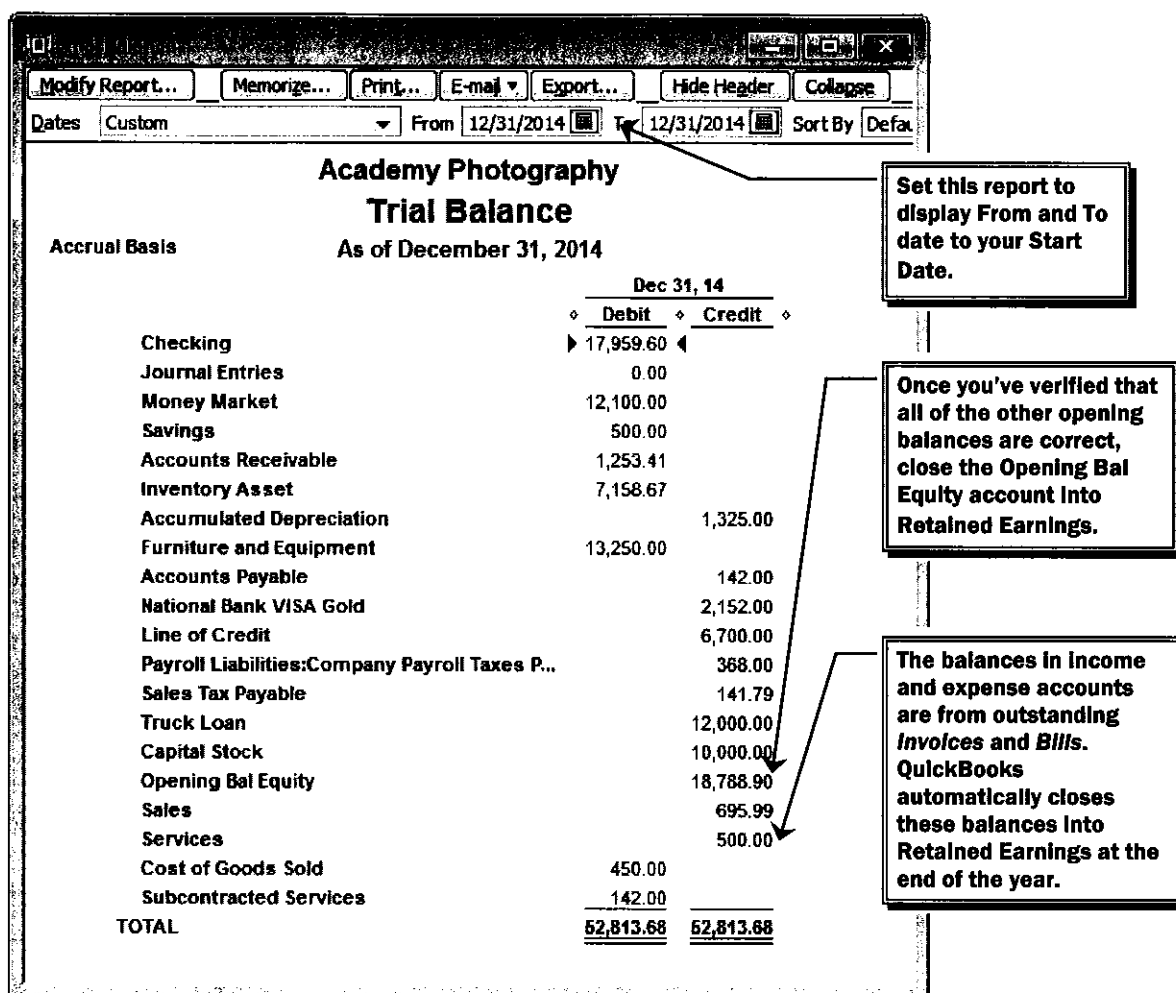


Figure 12-48 Trial Balance for Academy Photography as of the start date

## Closing Opening Bal Equity – Step 11

Once you have compared your *Trial Balance* report to your accountant's report, use a *General Journal Entry* to transfer (close) the balance in *Opening Bal Equity* into *Retained Earnings*.

**Note:**

If your company is a sole proprietorship, use this same process, but instead of *Retained Earnings*, the account should be called *Owner's Equity*. If your company is a partnership, split the balance of *Opening Bal Equity* between each of the partners' profit accounts.

### COMPUTER PRACTICE

- Step 1. Select the **Company** menu and then select **Make General Journal Entry**. If you are using QuickBooks Premier Accountant, use the *Accountant* menu. If necessary, click **OK** in the *Assign Numbers to Journal Entries* dialog box.
- Step 2. Set the **Date** field to your start date.
- Step 3. Enter the **General Journal Entry** as shown in Figure 12-49 and then click **Save & Close**.

**Academy Photography  
Balance Sheet**  
As of January 1, 2015

Accrual Basis

Jan 1, 15

<b>LIABILITIES &amp; EQUITY</b>	
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts Payable	142.00
<b>Total Accounts Payable</b>	142.00
<b>Credit Cards</b>	
National Bank VISA Gold	2,152.00
<b>Total Credit Cards</b>	2,152.00
<b>Other Current Liabilities</b>	
Line of Credit	6,700.00
<b>Payroll Liabilities</b>	
Company Payroll Taxes Payable	368.00
<b>Total Payroll Liabilities</b>	368.00
<b>Sales Tax Payable</b>	
	141.79
<b>Total Other Current Liabilities</b>	7,209.79
<b>Total Current Liabilities</b>	9,503.79
<b>Long Term Liabilities</b>	
Truck Loan	12,000.00
<b>Total Long Term Liabilities</b>	12,000.00
<b>Total Liabilities</b>	21,503.79
<b>Equity</b>	
Capital Stock	10,000.00
Retained Earnings	19,392.89
<b>Total Equity</b>	29,392.89
<b>TOTAL LIABILITIES &amp; EQUITY</b>	50,896.68

**To print a report, press the Print button on the report.**

**The balance in Retained Earnings on the January 1 Balance Sheet should match exactly with your accountant's after-closing Balance Sheet or trial balance.**

Figure 12-51 Academy Photography Balance Sheet

## Setting the Closing Date - Backing up the File – Step 12

Now that you have entered all of your opening balances in the file, create a backup of the file. After you begin entering transactions you should back up your file on a regular basis, but keep the backup you perform in Step 12 of the setup on a separate disk or in a separate folder on your computer's hard drive, so that you always have a clean record of your setup transactions.

### Setting the Closing Date to Protect your Setup Balances

For details on setting the *Closing Date* and the *Closing Date password*, see page 435.

Congratulations! You have finished the setup of your company file. You are now ready to set up users of the file, modify your sales forms, and begin entering transactions. The process for setting up users and passwords is in the next section, but the setup of your sales forms is covered on page 224.

## Users and Passwords

QuickBooks provides a feature for defining "users" of the file. This feature allows the "administrator" (the owner of the file) to set privileges for each user of the file. This provides security and user tracking when several people have access to the same data file.



## Setting Up Users in the Company File

Each user should have a separate user name and password. Once users have been setup, QuickBooks will require a user name and password when a company file is opened. The privileges granted to that user by the administrator determine what functions of QuickBooks they can access. For example, a user might have access to Accounts Receivable, Accounts Payable, and Banking functions, but not Payroll or “sensitive activities” like online banking. For a complete description of each privilege, click the **Help** button on the *User Setup* windows.

### COMPUTER PRACTICE

- Step 1. First you will setup the Administrator’s password. Select the **Company** menu, select **Set Up Users and Passwords**, and then select **Change Your Password**. The *Change QuickBooks Password* window will appear (Figure 12-52).

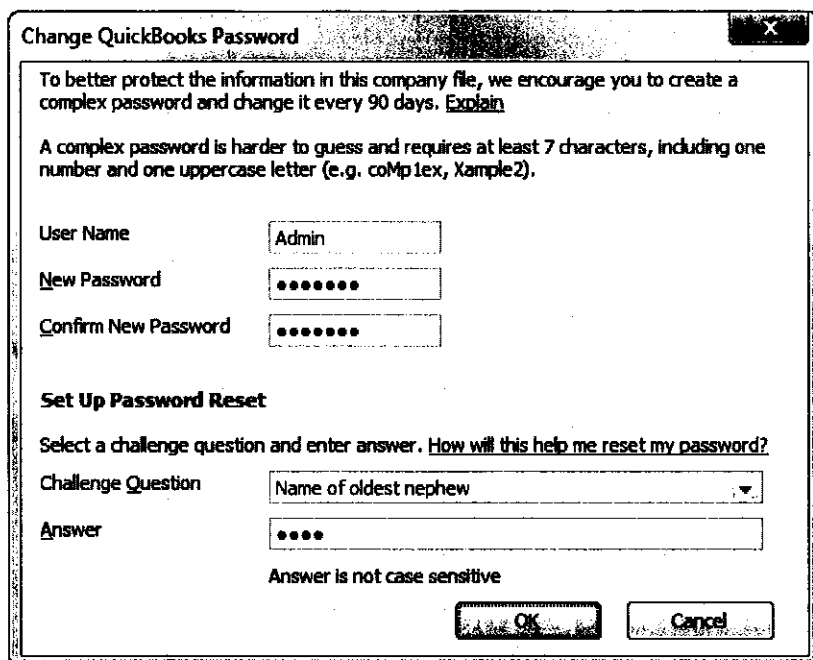


Figure 12-52 Change Administrator's Password

- Step 2. Leave **Admin** in the *User Name* field and then press **Tab** (see Figure 12-52).

You could, of course, change the administrator’s *User Name*, but even if you do, you’ll always be able to log in (or open the file) as the administrator if you enter **Admin** in the user name field and if you enter the administrator’s correct password.

- Step 3. Enter **Abc1234** in the *Administrator’s Password* and *Confirm Password* fields. Once you enter this password, you will need to remember this password to open this exercise file in the future.

Several privileges are reserved for the administrator of the file. For example, the administrator is the only one who can view or change the company information (name, address, etc.) for the file. Also, the administrator is the only one who can make any changes to the *Company Preferences* tabs in the *Preferences* section. For more information about the file administrator, see QuickBooks online Help.

**Note:**

To protect and secure your QuickBooks data file, always use a complex password. Complex passwords use at least seven characters, including capital and lowercase letters, numbers, and special characters. At least one of the characters should be a number, and another an uppercase letter.

- Step 4. In the *Challenge Question* field, select **Name of oldest nephew**.
- Step 5. Enter **Bill** in the *Answer* field. Click **OK**. After reading the password reminder window, click **OK** again.
- Step 6. Now you will set up the user's privileges. Select **Set Up Users** from the *Set Up Users and Passwords* submenu of the *Company* menu. The *QuickBooks Login* window displays (see Figure 12-53).
- Step 7. Type **Abc1234** in the *Password* field and click **OK**.

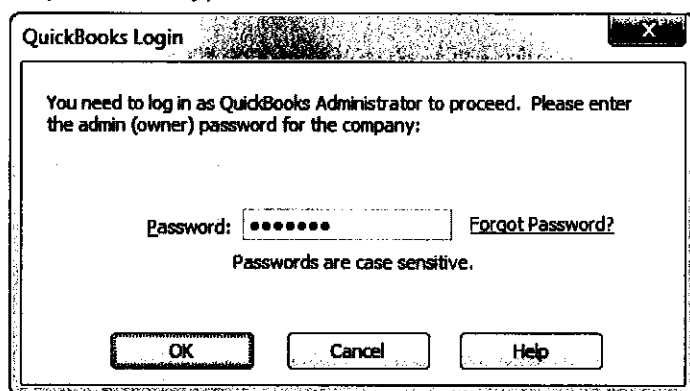


Figure 12-53 QuickBooks Login window

- Step 8. The window in Figure 12-54 shows the *User list* for this company file. To create an additional user, click **Add User**.

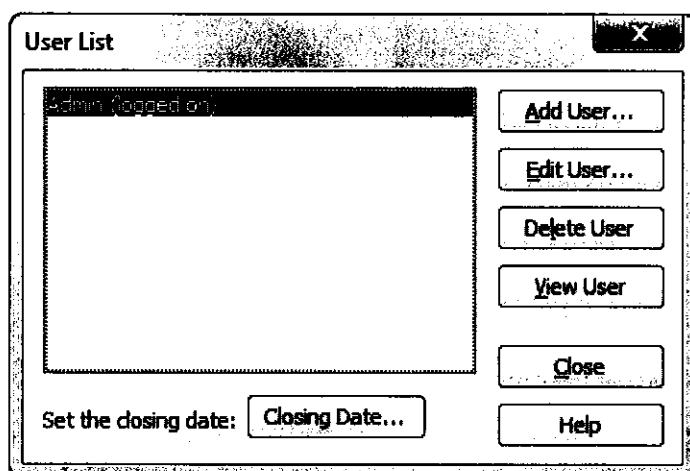


Figure 12-54 The User List for a company file

- Step 9. When you click **Add User**, QuickBooks walks you through a series of windows (a Wizard) where you set privileges for each user (see Figure 12-55). Make your selections as appropriate.
- Step 10. On the *User Name and Password* window, enter **Kathy** in the *User Name* field, and enter **Abc4321** in the *Password* and *Confirm Password* fields. Click **Next**.

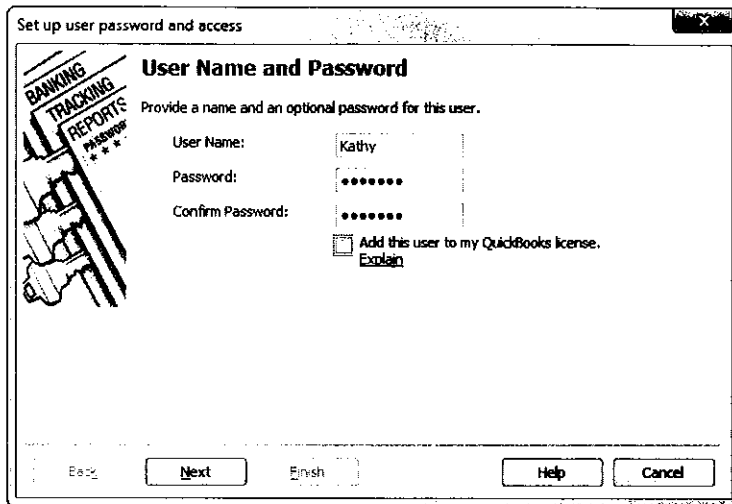


Figure 12-55 The User Name and Password window

- Step 11. On the *Access for user: Kathy* window, select **Selected areas of QuickBooks** (see Figure 12-56). Click **Next**.

As the Administrator, you can give users access to all areas of QuickBooks or you can restrict access to selected areas of the program.

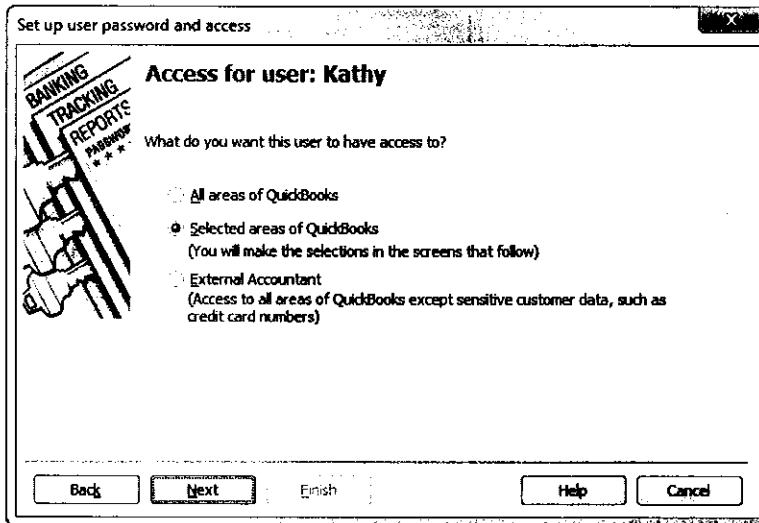


Figure 12-56 You can restrict a user's access

#### Did you know?

By selecting *Access to All areas of QuickBooks*, you give a user permission to change transactions in closed periods. Choosing *Selected areas* for all users allows you to protect your prior period accounting data without limiting the users' access to any other transactions or reporting (see Figure 12-58).

- Step 12. On the *Sales and Accounts Receivable* window, select **Full Access** and click **Next** (see Figure 12-57).

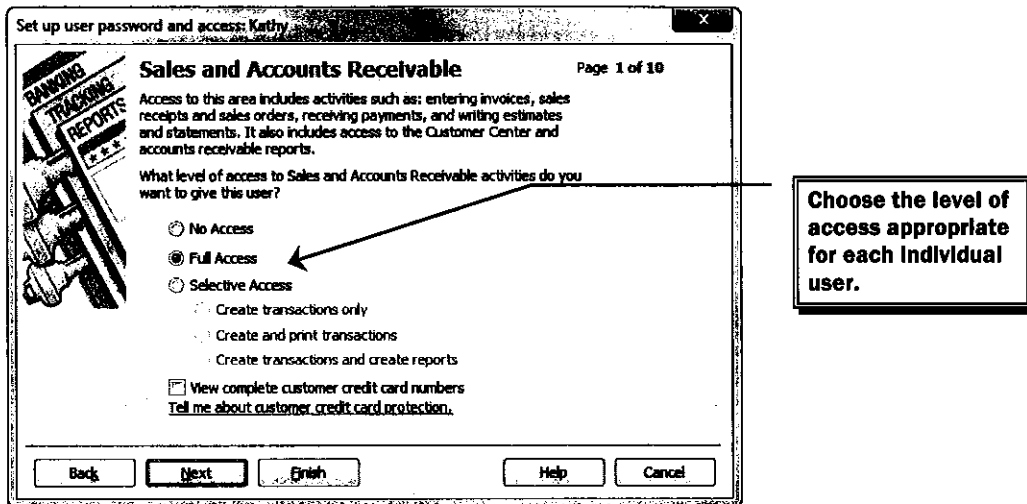


Figure 12-57 The Sales and Accounts Receivable window

Step 13. Click **Next** on each of the following windows to view the default settings.

When setting up your own file, set access rights for each new user as appropriate. If you are not sure what to select, click **Help**. Online Help will fully explain each privilege.

Each user should be restricted from *Changing or Deleting Transactions recorded before the closing date* (see Figure 12-58). This setting creates additional protection for your accounting data once you have closed the books for a period.

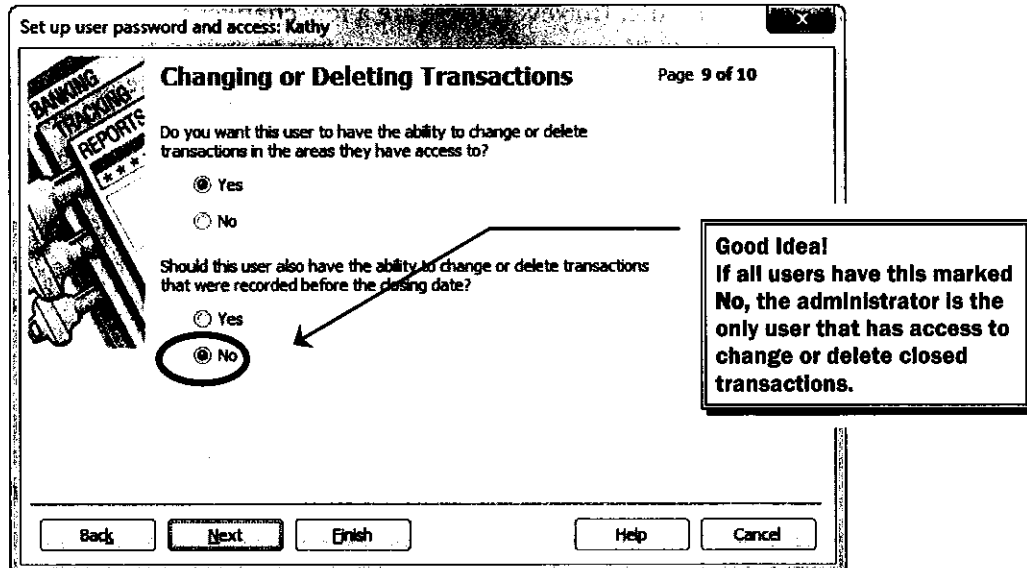


Figure 12-58 Changing or Deleting Transactions window

Step 14. On the final window, review the privileges that you have set for this user (see Figure 12-59). If you want to make any changes, click **Prev** until you see the window you want to change. To save your new user settings, click **Finish**. If you receive an Intuit Sync Manager warning, click **OK**.

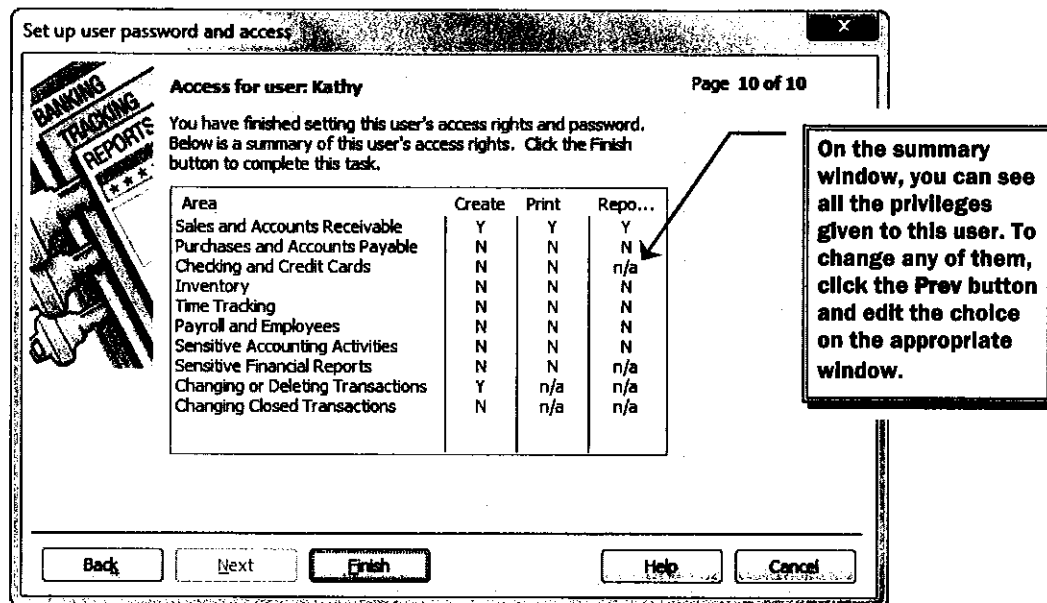


Figure 12-59 The Summary window

Step 15. Click Close on the User List window.

## Multi-User and Single-User Modes

QuickBooks is often run in a networked environment, where multiple users access the file at the same time. In such an environment, you will need to have QuickBooks in *multi-user* mode to allow these users to access the file. However, there are a few changes that cannot be made to a file while QuickBooks is in *multi-user* mode and require you to switch to *single-user* mode. When QuickBooks is in *single-user* mode, only one person can access the file at a time. Any user, not just those with *Administrator* privileges can use QuickBooks in *single-user* mode. Some of the changes that require *single-user* mode include making backups, exporting data, or deleting a list item.

To switch to *single-user* mode, first contact the others in your company who are using your file and ask them to exit out of the QuickBooks file. Once they have exited the file, go to the *File* menu and select *Switch To Single-User Mode*. When you are done in *single-user* mode, you can switch back to *multi-user* from the same location on the *File* menu.

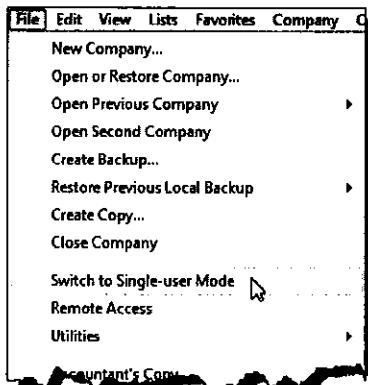


Figure 12-60 Switch to Single-user Mode on File menu

## Review Questions

Select the best answer(s) for each of the following:

1. If you're setting up QuickBooks and plan to begin using it at the beginning of the next calendar year, the best start date for your company file setup is:
  - a) The first day of the year (01/01/xx).
  - b) The day you are starting to use QuickBooks, regardless of the fiscal year.
  - c) The last day of the previous year (12/31/xx).
  - d) The first day of the quarter chosen for conversion.
2. This chapter suggests that the best way to set up A/R and A/P balances in QuickBooks is to:
  - a) Enter the total amount of A/R and A/P on a *General Journal Entry* dated on your start date.
  - b) Enter the balance of each account by editing the accounts in the *Chart of Accounts*.
  - c) Use a special account called A/R Setup (or A/P Setup) to record the opening balances.
  - d) Enter a separate *Invoice* for each open invoice and enter a separate *Bill* for each unpaid bill.
3. Setting up a company file does not include:
  - a) Obtaining a business license.
  - b) Selecting the appropriate chart of accounts for your type of business.
  - c) Adding accounts to the chart of accounts.
  - d) Entering *Invoices*.
4. A good example of a liability account is:
  - a) Inventory.
  - b) Accounts Receivable.
  - c) Advertising.
  - d) Accounts Payable.
5. To ensure the accuracy of the information entered during setup, it is important to:
  - a) Know your Retained Earnings.
  - b) Verify that your *Trial Balance* matches the one provided by your accountant.
  - c) Start at the beginning of the fiscal period.
  - d) Know everything there is to know about accounting.

## Setup-Problem 1

### APPLYING YOUR KNOWLEDGE

Create a *new* QuickBooks company file for Academy Photography. Use the information from the following tables and figures to completely set up the file using 12/31/2014 as your start date. Use the 12-Step setup process discussed in this chapter. Call your file **Setup-12Problem1.QBW**.

Company Info	
Company name	Academy Photography
Legal name	Academy Photography, Inc.
Tax ID	11-1111111
Address	123 Main Street Pleasanton, CA 94588
Country	U.S.
Phone	925-555-1111
Fax	925-555-1112
E-mail Address	info@academyphoto.biz
Web site	http://www.academyphoto.biz
Industry	Art, Writing or Photography
Income tax form	S Corporation
First month of fiscal year	January
Administrator password	Leave blank

Table 12-9 Company Information

Advanced Setup Settings	
Products and services	Academy Photography sells both products and services, although they do not sell products online.
Sales	Academy Photography charges sales tax and creates estimates. They want to track sales orders (if using Premier), and use statements and progress invoicing.
Purchases & vendors	Academy Photography will need to create billing statements and track bills. They will be tracking inventory. They will also want to print checks. They do not plan to accept credit or debit cards.
Employees	Academy Photography has both W-2 employees and 1099 contractors. They will want to track time.
Currency	Academy Photography does not need to track multiple currencies.

Table 12-10 EasyStep Interview settings

Additional Accounts for the Chart of Accounts		
Acct #	Account Name	Account Type
10100	Checking	Bank
10200	Money Market	Bank
10900	Journal Entries	Bank
22000	National Bank VISA Gold	Credit Card
24010	Payroll Liabilities:Company Payroll Taxes Payable	Other Current Liability
24020	Payroll Liabilities:Employee Payroll Taxes Payable	Other Current Liability
24030	Payroll Liabilities:Other Payroll Liabilities	Other Current Liability
27000	Truck Loan	Long Term Liability
40000	Services	Income
45000	Sales (note: change number of existing account)	Income

Table 12-11 Additional Accounts for the Chart of Accounts

**Accounts** – In addition to the default *Chart of Accounts*, add the accounts listed in Table 12-1. Since QuickBooks automatically created a Sales Income Account, you will only need to change the account number for this account. It is not necessary to enter descriptions, bank account numbers, or assign tax line items to any of these accounts for this problem. You will also create subaccounts, whose names are separated from the main account by a colon (:). For example, Company Payroll Taxes Payable is a subaccount of Payroll Liabilities. For a full recommended *Chart of Accounts*, see Setup Problem 2.

**Items** – Table 12-12 is the *Item List* that will be used to track products and services sold by Academy Photography.

Type	Item	Description	Tax Code	Account	Cost	Price
Service	Indoor Photo Session	Indoor Studio Session	Non	Services		\$ 95.00
Service	Retouching	Photo retouching services	Non	Services		\$ 95.00
Inventory Part	Camera SR32	Supra Digital Camera SR32	Tax	Sales	\$ 450.00	\$ 695.99
Inventory Part	Case	Camera and Lens High Impact Case	Tax	Sales	\$ 45.00	\$ 79.99
Non-Inventory Part	Standard Photo Package	Standard Package of Photography from Session	Tax	Sales		\$ 55.00
Sales Tax Item	Contra Costa	Contra Costa Sales Tax Vendor: State Board of Equalization (Quick Add)	Non	Sales Tax Payable		8.25%
Sales Tax Item	Out of State (Automatically Created)	Out of State Sales Tax - exempt from sales tax	Non	Sales Tax Payable		0%
Sales Tax Item	Santa Clara	Santa Clara Sales Tax Vendor: State Board of Equalization (Quick Add)	Non	Sales Tax Payable		8.25%

Table 12-12 Item List

**Classes** – Academy Photography uses *Classes* to separately track revenues and expenses from each of their locations. You will need to turn on class tracking in the *Accounting Company Preferences*.

Class Names	San Jose	Walnut Creek	Overhead
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Table 12-13 Class Tracking

**Terms** – Verify the following terms in the *Terms List*.

Net 30	Net 15	2% 10, Net 30	Due on Receipt
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Table 12-14 Terms List

**Bank Statements** – Figure 12-61 shows the Checking account bank statement for Academy Photography on their Start Date of 12/31/2014. There is no bank statement available for the money market account, but you've been told that there are no outstanding deposits or checks in that account. Enter the **Bank Ending Balance** as the opening balance for Checking account.



Business Checking Account		
Statement Date:	December 31, 2014	Page 1 of 1
<b>Summary:</b>		
Previous Balance as of 11/30/14:	\$	32,624.52
Total Deposits and Credits: 2	+ \$	10,157.28
Total Checks and Debits: 9	- \$	7,027.40
Total Interest Earned: 1	+ \$	8.62
Total Service Charge: 1	- \$	10.00
Statement Balance as of 12/31/14:	= \$	35,753.02
<b>Deposits and Other Credits:</b>		
<b>DEPOSITS</b>		
Date	Description	Amount
8-Dec	Customer Deposit	\$ 6,150.00
20-Dec	Customer Deposit	\$ 4,007.28
2 Deposits: \$		10,157.28
<b>Checks and Other Withdrawals:</b>		
<b>CHECKS PAID:</b>		
Check No.	Date Paid	Amount
3466	2-Dec	\$ 324.00
3467	3-Dec	\$ 128.60
3468	5-Dec	\$ 83.00
3469	8-Dec	\$ 285.00
3470	10-Dec	\$ 1,528.00
3471	12-Dec	\$ 3,000.00
3472	13-Dec	\$ 276.52
3473	15-Dec	\$ 142.00
3474	28-Dec	\$ 1,260.28
9 Checks Paid: \$		7,027.40
<b>INTEREST</b>		
Date	Description	Amount
31-Dec	Interest Earned	\$ 8.62
Interest: \$		8.62
<b>SERVICE CHARGES</b>		
Date	Description	Amount
31-Dec	Service Charge	\$ 10.00
1 Service Charge: \$		10.00

Figure 12-61 Bank statement for checking account on 12/31/2014

**Outstanding Checks and Deposits** – Table 12-15 shows a list of outstanding checks and deposits in the Checking account on 12/31/2014. Enter the outstanding check and deposit in the checking account register using the original date and Opening Balance Equity as the offsetting account. Don't worry if payee information is not available.

Outstanding Deposits at 12/31/14		Outstanding Checks at 12/31/14		
Date	Amount	Date	Check #	Amount
12/30/2014	\$2,000.00	12/26/2014	3475	3,462.85

Table 12-15 Outstanding checks and deposits.

**Open Invoices** - Table 12-16 shows a list of all open invoices for Academy Photography on 12/31/2014. Enter open **Invoices** using the original information and Intuit Product Invoice template. "Quick Add" each of the customer names when prompted. Save the tax information to be used again.

Inv #	Invoice Date	Customer:Job	Class	Terms	Item/Qty/Amt Due
2014-955	12/18/2014	Doughboy Donuts	San Jose	Net 30	Indoor Photo Session 3 Hours \$ 285.00 Retouching 1 Hour \$ 95.00 Total: \$ 380.00
2014-942	12/21/2014	Scotts Shoes	San Jose	Net 30	Camera \$695.99 Santa Clara Sales Tax Total : \$ 753.41

Table 12-16 Open Invoices

**Unpaid Bills** - Academy Photography had one unpaid bill at 12/31/2014. Enter the **Bill** with original information. "Quick Add" each of the vendor names when prompted. Save the terms information to be used again.

Bill #	Bill Date	Terms	Vendor	Amt Due	Account/Item	Job	Class
52773	12/21/14	Net 15	Boswell Consulting	438.00	Subcontracted Services	Scotts Shoes	San Jose

Table 12-17 Unpaid bills

**Physical Inventory**– Below are the physical inventory counts and values at 12/31/2014. Enter the Ref. No. as 2014-1 and Opening Balance Equity as Adjusting account. Select **Save Anyway** option when a dialog box appears asking for class information.

Physical Inventory at 12/31/2014		
Item	Quantity on Hand	Value
Camera	20	\$9,000.00
Case	20	900.00

Table 12-18 Physical Inventory by Inventory Part

**Trial Balance** – Table 12-19 shows the ending trial for Academy Photography on 12/31/2014. Enter opening balances for Asset, Liabilities, and Equity accounts to match the trial balance amounts.

Adjust Sales Tax Payable to match trial balance amount, using *Vendor*: State Board of Equalization.

Close the Opening Balance Equity account to Retained Earnings.

You will notice that the Trial Balance does not exactly match the one in Table 12-19. The income and expenses from the open *Invoices* and unpaid *Bills* shows in the income and expense accounts. This is CORRECT! When QuickBooks "closes" the year, those numbers will be posted into Retained Earnings. To see it work, change the date on the *Trial Balance* to 01/01/2015.

Academy Photography		
Trial Balance		
December 31, 2014		
	Debit	Credit
Checking	\$34,290.17	
Money Market	\$68,100.00	
Accounts Receivable	\$1,133.41	
Inventory	\$9,900.00	
Furniture and Equipment	\$85,365.00	
Accumulated Depreciation		\$43,550.00
Accounts Payable		\$438.00
National Bank VISA Gold		\$2,152.00
Payroll Liabilities: Company Payroll Taxes Payable		\$83.00
Payroll Liabilities: Employee Payroll Taxes Payable		\$285.00
Sales Tax Payable		\$327.03
Truck Loan		\$28,625.00
Capital Stock		\$10,000.00
Retained Earnings		\$113,328.55
TOTAL	\$198,788.58	\$198,788.58

Table 12-19 Trial balance on 12/31/2014

After completing the setup, print the following reports:

1. Account Listing
2. Item Listing
3. Open Invoices Report at 12/31/2014
4. Unpaid Bills Detail Report at 12/31/2014
5. Inventory Valuation Summary Report at 12/31/2014
6. Trial Balance as of 12/31/2014
7. Trial Balance as of 01/01/15
8. Balance Sheet Standard on 01/01/2015

Notice that Retained Earnings on the 01/01/2015 Balance Sheet has been adjusted for the income and expenses from last year. This shows how QuickBooks automatically calculates Retained Earnings. If you change the date on the Balance Sheet to 12/31/2014, you'll see Net Income on the Balance Sheet and the Retained Earnings number will change back to the "before closing" amounts. Try it.

## Optional Setup-Problem 2

In Setup-Problem 1 you used the default *Chart of Accounts* with a few additions. We recommend further customization to the *Chart of Accounts* when you setup a company file. For this problem, create a *Chart of Accounts* using the file you created in Problem 1.

The *Chart of Accounts* is listed in Table 12-11. It is not necessary to enter descriptions, bank account numbers, or assign tax line items to any of these accounts for this problem.

Normally, when you create a new data file, QuickBooks will create some accounts on the

*Chart of Accounts* for you. In this exercise, your goal is to add, delete, or modify the existing chart of accounts (from Setup-Problem 1) as necessary so that it agrees with the list below. As in Problem 1, you will also create subaccounts, whose names are separated from the main account by a colon (:).

After completing the setup, print an Account Listing.

Chart of Accounts		
Acct #	Account Name	Account Type
10100	Checking	Bank
10200	Money Market	Bank
10300	Savings	Bank
10900	Journal Entries	Bank
11000	Accounts Receivable	Accounts Receivable
12100	Inventory Asset	Other Current Asset
12800	Employee Advances	Other Current Asset
13100	Prepaid Insurance	Other Current Asset
15000	Furniture and Equipment	Fixed Asset
15200	Buildings and Improvements	Fixed Asset
15600	Land	Fixed Asset
15900	Leasehold Improvements	Fixed Asset
16400	Vehicles	Fixed Asset
17000	Accumulated Depreciation	Fixed Asset
18700	Security Deposits Asset	Other Asset
20000	Accounts Payable	Accounts Payable
22000	National Bank VISA Gold	Credit Card
24000	Payroll Liabilities	Other Current Liability
24010	Payroll Liabilities:Company Payroll Taxes Payable	Other Current Liability
24020	Payroll Liabilities:Employee Payroll Taxes Payable	Other Current Liability
24030	Payroll Liabilities:Other Payroll Liabilities	Other Current Liability
24200	Line of Credit	Other Current Liability
24500	Advance Customer Payments	Other Current Liability
25500	Sales Tax Payable	Other Current Liability
27000	Truck Loan	Long Term Liability
30000	Opening Bal Equity	Equity
30100	Capital Stock	Equity
31400	Shareholder Distributions	Equity
32000	Retained Earnings	Equity
40000	Services	Income
45000	Sales	Income
50000	Cost of Goods Sold	Cost of Goods Sold
53000	Purchase Discounts	Cost of Goods Sold
53500	Subcontracted Services	Cost of Goods Sold
54000	Inventory Variance	Cost of Goods Sold
60000	Advertising and Promotion	Expense
60200	Automobile Expense	Expense
60300	Bad Debts	Expense
60400	Bank Service Charges	Expense

61700	Computer and Internet Expenses	Expense
62400	Depreciation Expense	Expense
62500	Dues and Subscriptions	Expense
62600	Equipment Rental	Expense
63300	Insurance Expense	Expense
63400	Interest Expense	Expense
64300	Meals and Entertainment	Expense
64900	Office Supplies	Expense
66000	Payroll Expenses	Expense
66010	Payroll Expenses:Employee Benefits	Expense
66020	Payroll Expenses:Gross Wages	Expense
66040	Payroll Expenses:Officer's Compensation	Expense
66060	Payroll Expenses:Payroll Tax Expense	Expense
66500	Postage and Delivery	Expense
66700	Professional Fees	Expense
67100	Rent Expense	Expense
67200	Repairs and Maintenance	Expense
68100	Telephone Expense	Expense
68130	Telephone Expense:Office Phone	Expense
68150	Telephone Expense:Cell Phone	Expense
68400	Travel Expense	Expense
68600	Utilities	Expense
70200	Interest Income	Other Income
80000	Ask My Accountant	Other Expense
90000	Estimates	Non-Posting

Table 12-20 The Chart of Accounts